

# 30 ways to REDUCE YOUR TAX BILL



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Careful planning can produce tax effective outcomes



Shorrock Partners

*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, 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. 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.

This 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. Consider an investment bond

Investment bonds (or 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 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. Review your income package

Consider salary sacrificing to reduce your taxable income. Salary sacrificing involves entering into an agreement with your employer to pay for some items or services straight from your salary before tax.

Individuals can salary sacrifice many things such as electronic devices, motor vehicles, childcare, private health insurance, super and more.

Most employers will offer salary sacrifice to super but it is best to talk to your employer to see what other benefits they offer.

Salary sacrificing is available for anyone who earns more than the \$18,200 tax-free threshold, however it is most suitable for individuals on mid to high incomes.



## 9. Make spousal contributions

Higher earning spouses may be entitled to a tax offset if they contribute some of their super to their spouse's super account.

The threshold was increased in 2017 to \$37,000. Spouses can claim a maximum tax offset of \$540, which gradually reduces for income above \$37,000 until completely phasing out at an income of \$40,000.

# 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, have installed ready to use or paid for, from 12 May 2015 until 30 June 2019. However, the government have proposed a change to this, increasing the amount to \$30,000 and extending the threshold to now include

medium-sized businesses with a turnover of less than \$50 million.

While only the taxable purpose proportion is deductible, the entire cost of the asset must be less than the threshold. The threshold will apply on a "per asset" basis, meaning that eligible businesses can instantly write off multiple assets. The new rules will apply from 2 April 2019 and are set to remain in place until 30 June 2020.

## 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

For those who don't qualify for the 15-year exemption, small business owners may be eligible for the small business 50% active asset reduction to reduce the capital gain. An active asset 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 40 plant and equipment depreciation and Division 43 capital works deduction. 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 eligible 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. 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 47 per cent).

The types of concessional contributions individuals can make include salary sacrificing and personal deductible contributions. Salary sacrificing involves entering into an agreement with your employer to have some of your pre-tax salary paid directly to your super fund. There is no income tax on amounts that are salary sacrificed.

Whether you are employed, self-employed or an unsupported person, you can make contributions to your super and claim a full tax deduction.

### 23. 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.

### 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. The 'bring-forward' rule

The 'bring-forward' rule allows Australians aged under 65 to make up to three years' worth of non-concessional contributions in



any single financial year, meaning that they can contribute a greater amount without exceeding their non-concessional cap.

The 'bring-forward' rule is automatically applied when after-tax contributions exceed the cap for the financial year in which it was made. From 1 July 2017, the standard non-concessional contribution cap is \$100,000. Once the bring-forward rule is in place, the standard non-concessional cap no longer applies and total contributions over the next three years must not exceed the maximum cap of \$300,000

### 26. Make a Binding Death Benefit Nomination

Superannuation does not form part of your Will. Upon death, where there is no nomination, the trustee of your super fund will determine which of your beneficiaries is paid your super benefits.

A Binding Death Benefit Nomination (BDBN) is a written nomination made to your super fund which allows you to appoint dependants as beneficiaries.

Generally, a BDBN expires after three years so it is important to regularly revise it.

Make use of us!

This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your personal and business planning.

We are always pleased to discuss matters with you and advise in any way we can.

We're here to  
**HELP**



# 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 independent children who will not receive super benefits tax-free. 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 paying the 'death tax', members may want to consider using a retribution strategy, keeping a separate pension or even drawing down on their super before their death.

## 28. Administering a deceased estate

There are specific tax obligations that need to be met as the executor of a deceased estate, including:

- Notifying ATO you've been appointed as executor
- Lodging final return and any trust tax returns
- Provide beneficiaries with information needed to include distributions in their own returns
- Paying tax on income of deceased estate

## 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 up to \$13,000 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.
- Consider salary sacrificing to reduce your taxable income.

### Having a family



- Hold investments in a discretionary family trust for tax-effective income distribution.
- Make spousal 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.
- Use one of the CGT concessions available to reduce your business's CGT.

### Retiring



- Use the retirement exemption to reduce the amount of CGT.
- Reduce the income tax paid on dividends through franking credits.
- Make concessional (before-tax) contributions to prepare for your retirement.
- Make a Binding Death Benefit Nomination to nominate your super to intended beneficiaries.
- Utilise the bring forward rule to contribute more to your super.

### Next generation



- Plan to avoid the death tax by nominating your beneficiaries.
- 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.
- Understand your tax obligations as an executor.