Cornerstone Wealth

Financial Advice Based on Solid Foundations

Fact Sheet – Year End Tax Planning Strategies

What are the Year End Tax Planning Strategies?

Year end tax planning strategies are simple actions we can take before the end of the financial year that will either reduce the tax you will have to pay and/or provide some other benefit.

Examples

1. **Charitable Giving** — provide support to a registered charitable organisation such as Light FM by giving a monetary donation and receive a tax deduction i.e. reduce your taxable income by the amount of the donation. If you are within the 30% marginal tax rate, a donation of $1,000 will reduce your tax by $315 (including the Medicare Levy).

2. **Deductible Expenses** - pay for deductible expenses such as professional association membership fees and journals prior to 30th June.

3. **Pre pay interest** - pre-paying interest on investment related loans enables you to claim a deduction on the interest payments this financial year rather than waiting at least 12 months for the related tax deduction to be claimed in the following financial year.

Superannuation examples

1. **Personal Deductible Contribution** — particularly useful to offset capital gains tax triggered by the sale of a significant asset. For example, if you sold an investment property held jointly worth $800,000 that cost $400,000 triggering a capital gain of $400,000 or a discounted capital gain of $200,000 ($100,000 each) then, assuming you are eligible, you could make a $100,000 personal deductible contribution each to wipe out the capital gain. Assuming a 30% marginal tax rate this strategy would save at least $43,000 in tax.

2. **Government Co-contribution** — the federal government will put in $1.50 for every dollar ($1) you put into your superannuation account, up to a maximum co-contribution of $1,500 a year. Check the optimum level to contribute and other eligibility criteria on the related Fact Sheet on the topic.

3. **Spouse Contribution Rebate -** Taxpayers can claim an 18% tax offset on superannuation contributions of up to $3,000 made on behalf of their low income or non-working spouse. The maximum rebate allowed is $540 and is calculated as follows:

   Rebate = 18% x lesser of (a) and (b) where:
   (a) = $3,000 reduced by $1 for every $1 of the amount (if any) by which the sum of the spouse's assessable income and reportable fringe benefits exceeds $10,800
   (b) the total of the eligible spouse contributions made in relation to the spouse by the taxpayer

Don't let the tail wag the dog

Whether it is year end tax planning, giving decisions, estate planning or any other financial decision it is important that the tail doesn't wag the dog i.e. we first need to decide what our goals are and then use the best techniques to achieve them rather than making ad hoc decisions based on techniques for reducing income tax.

Think Long Term

Although it is important to take advantage of strategies such as those mentioned above it is more important to ensure you have longer term strategies and structures in place to ensure that you are most effectively working toward achieving your goals.

1. Are you using the most appropriate investment structure?
2. Could you increase your giving and reduce tax with the use of a trust?
3. Are you salary sacrificing the optimum amount into superannuation?
4. Are you experiencing peace of mind in terms of your investments?

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