Professional Investment Services

Budget Booster

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Top 5 tax strategies

One should not invest solely to obtain a tax benefit. Tax should never be the driver of investment decisions, however, there are tax strategies to consider as part of wealth creation planning.

1. Pre-pay interest and small asset write-offs

- Individuals not in business are able to prepay interest on loans used to purchase income-generating properties or dividend-paying shares.
- This gives the investor an opportunity to bring forward a sizeable tax deduction to reduce taxable income
- Useful if one has extra income in the relevant year due to inclusion of a large capital gain
- Individuals can also write off expenditure on small asset acquisitions costing less than $300 outright that relate to income-earning activities

2. Superannuation

Superannuation still represents a wonderful tax planning opportunity for most investors.

- If you are lucky enough to have your own self-managed superannuation fund (SMSF), which is invested predominantly in listed shares paying fully franked dividends, then the super fund may not even be paying any tax or even better, receiving a tax refund
- The government intends to reduce concessional contributions for those over 50 years old to $25,000 who have a super balance over $500,000, so it is important for those over 50 to maximise their concessional super before the new rule kicks in
- Low-income earners are encouraged to make an after-tax contribution to super as they may be eligible for a tax-free co-contribution benefit of up to $1,000. The only downside for the co-contribution is that the tax-free contribution made on your behalf by the government is locked away until retirement
- Invest one dollar and receive one extra dollar tax free, which has to be the best risk-free investment available. This strategy works well when you have both a high and low-income earner within the family unit
- Opportunity to claim a spouse rebate for super contributions made on behalf of a low-income spouse. The spouse rebate is worth up to $540

3. Salary packaging

- Some employers (not-for-profit sector) receive special fringe benefits tax (FBT) concessions, so it is important to maximise any such opportunities
- There are benefits that are exempt from FBT and then there are ones that receive concessional treatment, such as motor cars. Both these types of benefits should be looked at for inclusion into salary-sacrifice arrangements
- Employers can also benefit from salary-packaging opportunities as labour on-cost (work cover/payroll tax) can be lower under such arrangements

4. CGT discount/investment in LICs

- Hold onto investments for more than 12 months before you sell to take advantage of the capital gains tax (CGT) discount
- Investors often forget their CGT bill will be halved if they wait a little longer than 12 months before they get the temptation to sell
- Ability to claim an extra tax deduction in listed investment companies (LIC). LICs are not entitled to claim a 50 per cent CGT discount when they sell shares, but can transfer this benefit to shareholders. The entitlement appears as a notation on the investor's dividend distribution statement

5. Entity holding investment assets

- Probably one of the most significant tax planning strategies is to look at which entity within the family group holds the investment assets. You need to take into account what is the most important driver for your circumstances - asset protection, income-splitting flexibility, succession and estate planning. It can be as complex as setting up a discretionary trust or as simple as putting assets in the name of a low-income spouse
- Discretionary trusts are particularly useful as they tick most of the boxes when it comes to income splitting, asset protection, access to CGT concessions and succession planning. Advice from a suitably qualified adviser is recommended to help you sort through the maze

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