25 WAYS TO BEAT THE TAX MAN!

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MAKING MONEY CAN BE HARD ENOUGH, WITHOUT LOSING MORE THAN YOU MUST TO THE TAX OFFICE.

THIS SPECIAL REPORT HAS BEEN PREPARED TO HELP YOU FIND WAYS TO KEEP YOUR TAX TO A MINIMUM

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TIP # 1 – TAX PLANNING – TO INVEST OR NOT TO INVEST?

The most important thing to remember about tax planning is that there are only 2 main ways to save tax….

1 – 'Invest' money on tax deductible things or,

2 – Push your existing spending or income around a bit

Starting with point 1, the first thing you need to do is find out how much money you have got to spend. By working backwards from your personal costs, you then know how much you can afford to put towards any of the options outlined in this report that involve spending money. In a nutshell, you pay tax on your private expenditure, plus (or minus) any change in your net asset position.

Here's an example to make sense of this concept:

Keith & Nicole run a small business. They had the following private expenditure during 2016/17….

Home mortgage	$ 15,000
Food etc	$20,000
Kid's school, clothing etc	$ 6,000
Private vehicle	$ 8,000
Income tax	$10,000
Holidays	$ 6,000
Entertainment	$ 4,000
TOTAL	**$69,000**

In addition to that, they repaid $5,000 off their business debt but their overdraft increased by $1,000. Their taxable income was therefore $73,000 in 2017 ($69,000+$5,000-$1,000). They have reviewed their personal spending, and feel that they can reduce the total to $65,000.

In 2017/18 the bank only require them to repay $3,000 off their business loan. Their year to date figures indicate that the business profit may be $85,000, which could give them a $12,000 tax liability. They have got $17,000 to 'play with' (ie $85,000 profit versus $68,000 expected private spending and debt reduction).

Keith & Nicole are determined to reduce their home mortgage debt by at least an extra $5,000, so they are then left with $12,000. By working back from their non-tax deductible spending, and using this surplus in the most tax effective way, they can reduce the amount of tax they expect to pay from $12,000 to $7,500—a $4,500 saving.

REMEMBER, there is little point attempting to reduce your tax by spending more money if you don't have that money to spend. That doesn't mean that you can't reduce your tax – it just limits your options to the ones which don't involve a cash outlay.

TIP # 2 – UNDERSTANDING MARGINAL TAX RATES

The key to reducing your tax liability is to have an understanding of 'marginal tax rates' and at what income level they change. In other words, what rate of tax will you pay on the 'marginal' or 'last' dollar you earn.

The current tax rates are as follows

Taxable income	Tax on this income	
0 – $18,200	Nil	The first $18,200 is tax free
$18,201 – $37,000	19c for each $1 over $18,200	Then up to $37,000 you pay 19%
$37,001 – $87,000	$3,572 plus 32.5c for each $1 over $37,000	On income up to $87,000 (from $37,001) pay 32.5%
$87,001 – $180,000	$19,822 plus 37c for each $1 over $87,000	Between $87,001 to $180,000 the tax rate is 37%
$180,001 and over	$54,232 plus 45c for each $1 over $180,000	Everything above $180,000 is taxed @ 45%

On top of this there is the 2% Medicare Levy once your income reaches more than about $21,000

So if your personal taxable income is $64,000, you pay nothing on the first $18,200, 19% on the next $18,800 ($3,572), 32.5% on the last $27,000 ($8,775) plus a Medicare Levy of 2% of the whole $64,000 ($1,280) less low income offset of $445. A grand total of $13,587 out of the $64,000 goes in tax (an average tax rate of 21.23%).

Now that you can see what rate of tax you pay at each income level, you can begin to understand why certain income levels are important.

You will probably also see why splitting your income is so useful. If the $64,000 described above was earned by a husband wife team, instead of just one spouse, then the tax liability goes like this....

At $32,000 each, the tax if just $2,622 plus 2% Medicare Levy ($640) less a low income rebate of $445. When this total of $2,817 is multiplied by 2, the new total is $5,634. A saving of $7,953 compared to the $13,587 paid on $64,000 earned by one person. Of course if you have dependent children, there may be some Family Tax Benefits which will be lost which you need to factor in.

Splitting income to take advantage of various marginal tax rates is the single most effective tax planning tool there is.

TIP #3 – PAY LESS TAX BY PAYING MORE!

Taking the issue of marginal tax rates one step further, consider this example…..

Adam is a single guy who had been in business for just over 2 years. For 2017, the profit from his business looks like it could be $30,000, but he has just picked up a major new customer who he is sure will add $15,000 to his profit for 2018. Using a number of different strategies, he can in fact reduce his business expenses by $5,000 in 2017, which will have the effect of increasing his tax liability in 2018. The expenses will then be deducted in 2018, bringing the $45,000 projected profit for the following year down to $40,000.

Check out how the effect….

Before tax planning

	2017	2018	Total (2 Years)
Taxable Income	$30,000	$45,000	$75,000
Tax Payable	**$ 2,397**	**$ 6,747**	**$ 9,144**

After tax planning

	2017	2018	Total (2 Years)
Taxable Income	$35,000	$40,000	$75,000
Tax Payable	**$ 3,447**	**$ 4,947**	**$ 8,394**

A SAVING OF $750 IN TAX!!!

Naturally this must be weighed up against the interest cost of paying $1,050 twelve months earlier than absolutely necessary. At least by calculating the saving, you can compare it to the cost of financing extra tax.

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TIP #4 – REDUCE PRIVATE DEBT FIRST

In many cases, tax deductible interest can be cheaper than non-tax deductible interest. As a rule, it is better to ensure that any borrowings you have are related to assessable income you earn, so refinancing or reducing private debt first is a great tax planning (and saving) strategy.

How it works……

Think back to Keith and Nicole @ Tip #1. They have the following debt:

Home Mortgage	$220,000 (Home worth $450,000)	Interest 5%
Business Loan	$50,000 (Business cost $80,000)	Interest 7%
Ute on Hire Purchase	$25,000 (Market Value $30,000)	Interest 7.5%

Consider the interest on each loan

	Interest Rate	Interest p/a	Tax Deduction	After Tax	Effective Int Rate
Mortgage	5%	$11,000	$NIL	$11,000	5%
Business Loan	7%	$ 3,500	$1,137	$2,363	4.72%
Ute on HP	7.5%	$ 1,875	$609	$1,266	5.06%

The effective interest rate after the tax deduction at their marginal tax rate of 32.5% is only 4.72% on the business loan.

So, we would suggest that Keith and Nicole do the following…..

1 – Ask the bank to change the business loan to interest only, in exchange for increasing their home mortgage repayments so that the total debt is reducing by the same amount (the home was used as security for the business loan anyway, so it makes little difference to the bank).

2 – As Keith and Nicole are planning to replace the Ute, we will get them to finance the total amount of the new vehicle, and take the $5,000 they get for the trade-in (after paying out the hire purchase) and pay it off the home mortgage

3 – Nicole's granny has left her $10,000 in her Will, which she was planning to use to expand their shop and buy more stock. By paying it off the home loan instead, and drawing the same amount back out of the business loan (as it is totally business related), they will have paid off the mortgage in about 7 years rather than the original 14 years.

SO THE GOLDEN RULE IS. If you **EVER** have the opportunity to pay off a debt, pay your private debt off **FIRST**, then pay off *partly tax deductible debt* (like cars), and last of all, pay off your totally tax deductible debt. Of course you need to check the effective after-tax interest rates, as well as be aware of the change in repayments.

If you everhave cash reserves, pay off private debt FIRST, then partly tax deductibledebt and reduce business borrowings LAST.

TIP # 5 - 12 WEEKS OF PAIN EVERY 5 YEARS

Motor vehicle expenses are often one of the single largest expenses claimed on a tax return (over $8,062 million claimed in previous years in Australia), yet people regularly miss out on thousands of dollars' worth of tax deductible claims because they have not kept a log book. Consider the following points….

- Once kept for 12 continuous weeks, a motor vehicle log book need not be kept again for another 5 years (as long as your business use doesn't change by more than 10%)
- Even if you change cars, the log can be transferred to the new vehicle
- Your logbook can include travel between two places of employment

In 2016 the ATO simplified the claiming of motor vehicle from 4 methods down to 2. See tip #6 on the options now available to you. You are quite free to pick and choose each year between the two methods available.

TIP # 6 – PICK THE BEST VEHICLE OPTION

Lets look at an example. Tax a 2 year old Commodore which cost $35,000

Annual Operating costs	
Fuel (can be estimated on a consumption calc)	$3,000
Registration & Insurance	$1,400
Annual Repairs	$1,500
Depreciation (estimated, decreases over time)	$6,000
TOTAL OPERATING COSTS	**$11,900**

1 – SET RATE PER KM METHOD

If you think that less than 5,000 work related km's will be traveled during the year, then you can simply reasonably estimate your km's (up to 5,000) and multiply by the flat rate of 66c per km to get your deduction amount. If you are confident that more than 5,000kms are likely then multiply 66c rate by 5,000 kms = $3,300 deduction, easy.

2 – LOG BOOK METHOD

Use the % that you have got for work/business travel from Tip #5 and multiply the total operating costs from the example above by the log book % to determine your deduction. So if your logbook indicated 45% for work/business travel, your deduction would be $11,900 x 45% = $5,355. In this case it was WELL WORTH KEEPING THE LOGBOOK!

TIP # 7 – DRIVE 2 CARS…….

As unusual as this may sound, if you have 2 cars (particularly older ones where depreciation is likely to be fairly low), and your business travel is around 10,000kms, then use them equally and reap the rewards…..

To illustrate…..

1973 Falcon	5,500 business kilometers	YOU CAN CLAIM 5,000 X .66C =	$3,300
1985 Laser	4,800 business kilometers	YOU CAN CLAIM 4,800 X .66C =	$3,168
		TOTAL CLAIM	$6,468

Compare that result to the fairly low total running costs of the Falcon (due to its age and lack of depreciation claim) at $5,500 even if a logbook shows 100% business use, you would not get a better claim!

The same principle applies if you change cars during the financial year.

In some ways, driving an old bomb, but changing over in January each year will give you as much of a claim as a new car on which you can only justify say 50% business use

TIP #8 – REVIEW YOUR STRUCTURE

Every tax payer has the option, when operating their business, to choose the structure which suits them best. There are many factors which need to be considered – asset protection, tax planning, industry requirements, cost and more. The table below gives you an outline of the costs and benefits of each.....

Structure	Cost	Asset Protection	Tax Planning	Complexity
Sole Trader	Very Low	Almost None	Almost None	Very Simple
Partnership	Low	Absolutely none	Some	Quite simple
Company	High	Very high	Good	Complex
Trust	Very high	Very high	The best	Very complex

In short, from a tax point of view, the company/trust structures open up great opportunities to reduce or defer your tax liability, but they come at a cost. Every situation is different, and we will always advise our clients the minute their structure needs reviewing. The main tax benefits are.....

- Income earned through a company can be paid to working Directors and family members as wages, thus spreading the tax burden (see tip #1)
- Companies pay a flat rate of 27.5% (2016/17FY for Small Business entities) on every dollar. When compared to marginal rates (including Medicare Levy) of 39% over $87,000 and 47% over $180,000, the savings can be significant.
- Family trusts can make tax free distributions to children of $416 per child.

HOT TIP: Now that tax rates for companies are falling (currently 27.5% and heading to 25% in 2026) company structures are back in favour. Even better when the shares are owned by a discretionary family trust. Talk to us to find out what structure suits your circumstances.

TIP #9 – BOOST YOUR RETIREMENT SAVINGS

Deductions for superannuation are subject to aged based limits for the 2016/17 year and one flat limit thereafter (see table below) and can be claimed by….

- Salary and wage earners by getting their employer to salary package (see Tip #10)
- Sole traders and partners can claim up to $30,000 or $35,000 (2016/17) and $25,000 (2018 on)
- Company and trust owners can simply claim these contributions as a deduction against their business income.

Age of taxpayer	Deduction Limit 2016/17	Deduction Limit 2018 onwards
Under 50	$30,000	$25,000
50 and over	$35,000	

A tax of 15% applies to contributions and to superannuation fund earnings, so if your income is greater than $37,000, your tax savings by contributing to superannuation using one of the methods above will grow much faster in your superannuation fund than in your own name.

As of 1 July 2017, there are some changes that affect salary and wage earners and how they can access a tax deduction for super contributions. Salary and wage earners will be able to make contributions to their superannuation from their after-tax money and claim a subsequent deduction in their tax return at the end of the year, up to the **TOTAL** from all sources super contribution limit of $25,000.

On top of a tax deduction, there is the Super Co-Contribution which if you pay up to a maximum of $1,000 contribution from your after-tax money (which is separate from the example above from before-tax money) into your superannuation fund, the government will pay up to $500 as they match up to 50c for every $1. Your income must be below $36,021 to get the maximum co-contribution of $500, phasing out to nothing once your income exceeds $51,021.

LONG TERM TAX PLANNING:

Some new rules are coming soon which could allow a super claim of up to $25,000 in one year! This will be a great opportunity to sell a capital asset (like a rental property) and not be hit hard with tax in that year. Talk to us for more info on this strategy.

TIP #10 – SALARY PACKAGING IS ALIVE & WELL

Despite the fact that the value of benefits received must be shown on PAYG Payment Summaries, salary packaging still offers some great tax benefits. With Fringe Benefit Tax (FBT) rate of 47% (and higher while the temporary budget repair levy remains in place) there is no use in packaging items which are not tax deductible in most circumstances, so the main savings are found in….

SUPERANNUATION

Wage and salary earners in 2016/17 are not eligible to claim super as a personal tax deduction, so by reducing their salary in lieu of increased super payments by their employer (on top of the compulsory 9.5%), the tax savings can see your retirement fund grow.

In 2018 this all changes and another option is available to salary and wage earners. They will now be eligible to make a personal superannuation contribution and receive a tax deduction for that after tax contribution, or they will be able to continue to choose to salary sacrifice, which ever option is most convenient, but ensuring that **ALL** contributions from **ALL** sources (including compulsory 9.5%) do not exceed the new deduction limit of $25,000.

MOTOR VEHICLES

The FBT payable on a car provided as part of a salary package is calculated at a flat 20% calculation of the vehicles cost base. This can make for tax savings as the taxpayer's salary increases. The table illustrates the increase in take home pay as a result of a salary sacrifice for a car costing $35,000 and assuming car running costs of $15,000. At 20%, the employee contribution of $7,000 (20% x $35,000) is offset against the $15,000. (expenses no longer paid from after tax income). The $8,000 reduction in taxable income is the key.

<table>
<tr><td>Taxable Income</td><td>Tax Savings</td><td rowspan="5">Even greater tax savings can be enjoyed if you keep a log book on a packaged vehicle!</td></tr>
<tr><td>Less than $37,000</td><td>$1,680</td></tr>
<tr><td>$37,001 to $87,000</td><td>$2,760</td></tr>
<tr><td>$87,001 to $180,000</td><td>$3,120</td></tr>
<tr><td>$180,000 and over</td><td>$3,760</td></tr>
</table>

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TIP # 11 – EVEN FOR THE SELF EMPLOYED

Salary packaging is also one of those benefits for businesses who trade through a company structure. The same rules apply to those items outlined above, and the concessional treatment of travel expenses, laptop computers and mobile phones may also be attractive.

TIP #12 – PRE-PAY EVERYTHING POSSIBLE

Once you have considered where you fit into the marginal tax rates, it will give you a clear idea as to whether to prepay any expenses. In general, the 'rules' are....

- **ALWAYS** pre-pay expenses if you think your income the following year will be less and so in a **LOWER** tax bracket.
- **ALWAYS** pre-pay your expenses if the tax scales are falling and the same income next year will be taxed at a lower rate
- Pre-pay expenses, if you think that you will be in the **SAME** tax bracket, and you would like to **DEFER** the inevitable tax liability
- **DON'T** pre-pay expenses if your taxable income is likely to be lower in the next income year, and you will be in a lower tax bracket next year

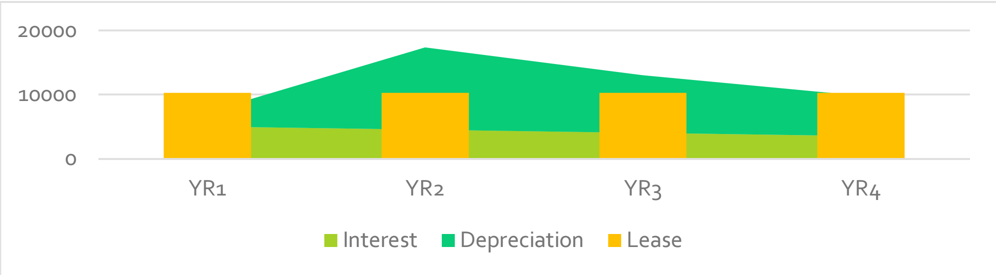
You are looking for expenses which you are likely to pay for in July or August **ANYWAY** (like stationary needs, vehicle repairs, advertising etc.) and which you could pay for in June, without adding to your stock on hand. Also remember that you may be able to prepay up to 12 months on things like interest on business debts, leases on vehicles or equipment, service contracts etc.

> Under the 'simplified tax system' you get a deduction for business expenses PHYSICALLY PAID before 30th June each year.

TIP # 13 – LEASE OR CHATTEL MORTGAGE

We are constantly being asked 'How should I finance the vehicle/equipment I am about to buy?' The short answer is generally a Chattel Mortgage is better unless it is nearly 30th June, you really need a big tax deduction, and are prepared to pay 12 months lease payments in advance. The reason is that under a Chattel Mortgage, you OWN the asset, and so can claim the depreciation PLUS interest component of the monthly payments. An example…….

Brad is about to buy a $45,000 Ute for his business. The repayments are the same under a lease or a chattel mortgage at $850 p/mth. The lease payments of $10,200 a year are fully tax deductible. Under a Chattel Mortgage the depreciation and interest are both deductible, giving him a total claim as shown below.



This means that tax deductions under a lease are the same every year, while a Chattel Mortgage is higher in the first few years and lower in the latter years. As this will save you tax in the short term, it is usually the best option. There is also the issue of 'recouped depreciation' when selling an asset, where the tax treatment of any profit is better if the asset has been owned rather than leased.

TIP # 14 – DEFER INCOME

In much the same way as you look at pre-paid expenses, it is always worth looking at ways to defer the earning of your income. Businesses that account on a 'cash bases' (that is, those that qualify as a 'Small Business Entity' where amounts receive before 30th June are assessable), can simply attempt to delay the physical receipt of the income.

For businesses which 'accrual account' (ie include their Debtors at the end of each year as income), to defer income involves not invoicing for work performed in June. Care needs to be taken as there may be still 'stock on hand' or 'work in progress' which must be included. There is also the danger that the customer may delay payment on their account until the end of the following month (ie August) when they would normally have paid in July, which could affect business cash flow.

TIP # 15 – STOCK – THIS YEARS CLOSING IS NEXT YEARS OPENING….

There are 3 methods by which stock can be valued at year end…..

1 – Cost (Most Common)
2 – Market Selling Value or,
3 – Replacement price

A different method can be chosen for each class of item, as long as the closing stock in one year always equals the opening stock in the following year. The effect this can have on your taxable income is illustrates below….

	2015	2016	2015	2016
Sales	$100,000	$150,000	$100,000	$150,000
Less: Cost of Sales				
Opening Stock	$ 20,000	$ 25,000	$20,000	$20,000
Plus: Purchases	$ 60,000	$ 77,500	$60,000	$77,500
Less: Closing Stock	($25,000)	($20,000)	($20,000)	($20,000)
Total Cost of Sales	$55,000	$82,500	$60,000	$77,500
Gross Profit	$45,000	$67,500	$40,000	$72,500
Less: Overheads	($20,000)	($30,000)	($20,000)	($30,000)
Net Profit	$25,000	$37,500	$20,000	$42,500

TIP # 16 – WRITE OFF ALL BAD DEBTS

Prior to 30th June, businesses that are not a qualifying Small Business Entity can write off any Debtors which they have been chasing for payment without success. This means that you will not pay tax on those sales unnecessarily.

Of course if they do happen to pay their debt in the following tax year, you would simply have to include it in your income at that time.

TIP #17 – CAPITAL GAINS ARE TWICE AS GOOD AS TRADING PROFIT

If you could choose between making your income from trading or from capital gains, then capital gains come up trumps nearly every time. This is because the Capital Gains Tax Discount reduces the gain by 50% as long as you have owned the asset for more than 12 months. This means that instead of paying 30% tax on the profit, you pay 15% - instead of 45%, you pay 22.5% (that's 7.5% less than the company tax rate!) Check out the example….

Ben and Jennifer purchased a rental property in 2006 for $230,000 plus stamp duty and costs of $5,000. In January 2017, they were offered $335,000 on a private sale to the tenant. The gain of $100,000 (being $335,000 less the purchase costs) is discounted by 50%, so their half share is $25,000 each. The tax is calculated as follows

	Example 1	Example 2	Example 3
Discounted Capital Gain	$50,000	$50,000	$50,00
Half share each	$25,000	$25,000	$25,000
Other income	*$Nil*	*$35,000*	*$70,000*
Total taxable income	$25,000	$60,000	$95,000
Total tax payable (each)	$2,475	$13,500	$26,525
Total tax payable without the	$Nil	$5,275	$16,650
Capital Gains tax component	$2,475	$8,225	$9,875
Share of gross capital gain	$50,000	$50,000	$50,000
After tax cash profit	$47,525	$42,125	$40,125
Effective tax rate on profit	4.95%	16.45%	19.75%

The only catch (and there is always a catch when it comes to tax!) is that inflation is not taken into account (and has not been since September 1999). Even so, in this example, the real dollar gain is $26,500 which means you are still ahead. In this low inflationary time, capital gains are good for tax.

***The 50% discount applies to assets owned in an individuals name, a partnership or trust. A 33% discount applies to assets owned by a Superannuation Fund. Companies capital assets do not receive a discount.**

TIP #18 – USE YOUR CAPITAL LOSSES

Capital losses (made when you sell a taxable asset for less that you paid for it) can only be offset against capital gains made in the same year or future years. You cannot offset losses against normal taxable income.

So, if you have made a capital gain, look for any assets which (if sold or disposed of) would give rise to a capital loss to offset against the gain made.

Remember also that the value of your losses diminishes over time as inflation eats away at the real value, so even though you can carry forward your losses it is better to use them up as soon as possible, to keep their value real.

TIP #19 – CAPITAL ITEMS – LESS THAN $20,000

Since 12th May 2015 the immediate write off for capital items has been increased to $20,000 (from $1,000) for small and medium businesses with a turnover of less than $10mil, which means that you can get a 100% tax deduction for items of plant & equipment costing less than $20,000 including computer software. This has recently been extended to 30 June 2018 in the recent 2017 Budget.

It also means that if you have pooled your assets from previous years and their opening balance is less than $20,000 and no assets over $20,000 have been added to the pool in the current year that you can write the balance of the pool off in that financial year, rather than receiving 30% deduction on the opening balance of the asset pool.

Primary production businesses of any size are able to immediately deduct the full cost of fencing and water facilities (dams, tanks, bores, irrigation channels, pumps, water towers and windmills). They can also depreciate fodder storage assets over 3 years (over $20,000) those fodder storage assets under $20,000 they can elect to either deduct 100% or depreciate over 3 years also.

Business startup costs (ie professional advice, legal, accounting etc) can also now be written off 100% at the time of expenditure (Company/Trust etc setup).

TIP#20 – CAPITAL ITEMS – OVER $20,000

The claim for depreciation was in the past pro-rated for the number of days that the asset was held for. This meant that buying a capital asset (such as a vehicle or piece of equipment) in the April to June quarter had little impact on the deduction for the year. Under the Small Business Entity package, a deduction for 15% of the value of the new asset is available in the first year and then 30% every year after, regardless of the time of year it was purchased. By way of example….

Michael purchased a new truck on the 28th of June. The cost was $88,000 Inc GST, and he was offered $22,000 for the trade-in which only had a tax value of $10,000. He financed $60,000 over 5 years, so his first repayment was $1,200. The tax deduction is calculated as follows:

General Pool Opening Balance		$10,000
Plus: New Purchase		$80,000
Less: Depreciation		
30% of opening balance	-$3,000	
15% of new purchase	-$12,000	
TOTAL DEPRECIATION		-$15,000
Less: Sale Proceeds		-$20,000
General Pool Closing Balance		$55,000

<u>So an extra tax deduction of $12,000 arises from one finance payment of $1,200!!!!</u>

TIP #21 – PRIVATE HEALTH INSURANCE

Status	**INCOME THRESHOLDS**			
	Base Tier	Tier 1	Tier 2	Tier 3
Single	$90,000 or less	$90,001 - $105,000	$105,001-$140,000	$140,001 or more
Family	$180,000 or less	$180,001-$210,000	$210,001-$280,000	$280,001 or more
MEDICARE LEVY SURCHARGE				
	0%	1%	1.25%	1.5%

*For families income threshold is increased by $1,500 for each Medicare Levy surcharge dependent child after the first child.

High income earners (see above) without Private Health Insurance must pay the Medicare Levy Surcharge, on top of the 2% Medicare Levy; this can be as high as an additional 1.5% of your income. With some of the 'cheap and cheerful' health insurance policies (hospital only not extras) policies now available, you may in fact be better off with private health insurance, even after paying the premium.

TIP #22 – NEGATIVE GEARING

Despite its reputation as the 'wonderboy' of tax planning, negative gearing is really nothing more than a money shuffling exercise. It is all about losing money in one year with the aim of making a profit or capital gain in the future – when your marginal tax rate is lower.

Bert earns $85,000 a year. He bought a rental property for $350,000 –borrowing the entire amount by using his home as additional security. His repayments are $2,100 a month and his rental profit and loss looks like this….

Rental Income - $350/week		*$18,200*
Less:		
Interest on $350K	*$20,125*	
Repairs	*$ 2,200*	
Rates	*$ 1,552*	
Insurance	*$ 588*	
Agent Commission	*$ 1,365*	*($25,830)*
Net Profit (Loss)		*($ 7,630)*
Tax Saving @ 39% Marginal Rate of $2,976		

With repayments totaling $25,200 a year plus expenses (excl interest) of $3,705, offset by rent of $18,200 and a tax refund of $2,976 Simon must still find $187 per week to cover the shortfall of which $98 is debt reduction.

If the value of the property is **NOT** *increasing by at* **LEAST** *the $4,649 after tax cost, or 1.3% per annum then Simon is wasting his money.*

The negative gearing principle can be applied to shares. After all, if you are prepared to borrow $350,000 to buy one single asset, why not spread your risk and buy 10 different shareholdings. The risk is not dissimilar and you can always sell a parcel of shares overnight, whereas you cannot sell one room in a house. The income on the shares is also tax paid (see Tip #23 to find out more on this little gem)

TIP #23 – SHARES AND FRANKING CREDITS

'Tax paid income'….Id like to see that!

Here is how it works….

Lets say you own all the shares in a company which makes a profit of $100. With a company tax rate generally of 30% or $30, there is $70 left for you as the shareholder. A 'fully franked' dividend is declared, and you receive the $70 cash in your hand, with an 'imputation credit' of $30. You must declare the entire $100 (cash plus imputation credit) in your tax return, but you get a credit for the $30. Depending on how much other income you have earned, the $30 might be partly or wholly refunded to you, or at least will go towards your tax liability.

*Note: Tax rates for small business entities have reduced and the 30% may in some cases be 28.5%.

Company Profit	$100
Less: Tax	$ 30
Net Profit	$ 70
Personal Income:	
Salary Income	$ 25,000
Dividend	$ 70
Imputation Credit	$ 30
Total Income	$ 25,100
Tax Due	$ 1,322
Less: PAYG Tax Paid	($ 1,300)
Less: Imputation Credit	($ 30)
NET REFUND	($ 8)

TIP #24 – ALWAYS SEEK PROFESSIONAL ADVICE

OWNING ASSETS IN THE MOST TAX EFFECTIVE INDIVIDUAL/ENTITY…A QUICK PHONE CALL TO YOUR ACCOUNTANT COULD SAVE YOU $000'S

1 – TERM DEPOSITS AND OTHER INVESTMENTS – as a general rule these should be in the name of the lowest income-earner, to take advantage of the lowest marginal tax rate.

2 – RENTAL PROPERTIES – Rental properties can be a tax effective way to reduce tax in the short term and at the same time build wealth by way of capital growth in the future. But purchasing the property in the right persons name can have huge tax benefit now and in future.

3 – FINANCE – If your considering purchasing a capital item on finance you should always seek professional advice, a quick phone call to your accountant or financial advisor could save you $000's in financing charges and costs, they can debunk the hidden costs for you before you sign on the dotted line

TIP #25 – INTERIM TAX PLANNING IS THE GOLDEN NUGGET

The most up to date and accurate information about your likely profit position is essential for tax planning to be of any real use. Projections are based on a comparison of past years, with year-to-date figures projected to the year end, adjusted for known changes in income and expenditure. To illustrate the process

	Actual to June 2015	Actual to June 2016	Actual to March 2017	Projected to June 2017
Sales	$200,000	$220,000	$180,000	$240,000
Less: Cost of sales				
Opening Stock	$15,000	$20,000	$22,000	$22,000
Plus purchases	$68,000	$70,000	$62,000	$81,000
Less: Closing Stock	($20,000)	($22,000)	($24,000)	($25,000)
Total cost of sales	$63,000	$68,000	$60,000	$78,000
Gross Profit	$137,000	$152,000	$120,000	$162,000
Gross Profit	68.5%	69.1%	66.67%	67.5%
Less: expenses				
Advertising	$6,000	$7,000	$6,000	$8,000
Depreciation	$17,100	$20,000	$0	$17,380
Insurance	$3,000	$3,500	$500	$3,600
Interest	$10,000	$8,500	$5,550	$7,300
Motor Vehicle	$15,000	$1767	$12,000	$16,000
Repairs	$5,000	$6,000	$4,500	$6,000
Superannuation	$900	$1,330	$1,450	$1,720
Wages	$10,000	$14,000	$15,000	$18,000
Total expenses	($67,000)	($78,000)	($45,000)	($78,000)
Net Profit	$70,000	$74,000	$75,000	$84,000

Jack & Jill	With no planning	With tax planning
Taxable Income	$42,000 (each)	$37,000 (each)
Tax Payable	$4,827	$3,127
Plus Medicare Levy	$840	$740
Total Prime tax liability	$5,667	$3,867
Less: PAYG instalments	($4,000)	($4,000)
Total payable/ (refundable)	$1,667	($133)

SAVINGS OF $1,800 X2 = $3,600 !

TAX PLANNING OPTIONS TO REDUCE THE PROFIT BY $10,000 WOULD INCLUDE PREPAYING SOME EXPENSES, REDUCING THE STOCK VALUATION OR FOR A MORE PERMANENT SAVING, INVESTING INTO SUPERANNUATION OR BUSINESS EQUIPMENT

Please note: this document contains general information only. Specific advice tailored to your circumstances can be obtained by contacting our office on 03 5775 2713