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TAX PLANNING for INDIVIDUALS

The following outline certain considerations in planning to legally minimise income tax. They are generalisations and should not be considered as advice. Therefore, no responsibility will be taken for any loss incurred as a result of relying on these generalisations. You should speak to your accountant about the application of any of these to your circumstances.

Minimise and Defer Income

- Consider salary sacrifice into superannuation. In some circumstances self-managed superannuation funds may also be beneficial;
- Income earning investments should be in the name of lower income earning spouse;
- Undeducted contributions into superannuation funds should be considered for any excess cash. Complying superannuation funds are taxed at 15% on the income compared to the individual's tax rate. Furthermore, undeducted contributions withdrawn from superannuation funds (subject to certain conditions about withdrawal) are free from tax;
- Invest in growth assets such as shares or property (if appropriate). They can have substantial tax benefits such as franking credits for shares or tax-free and tax deferred components for property securities. Furthermore, unrealised capital gains are not taxed, realised capital gains are taxed concessionaly (for individuals only half of the gain is taxed and for superannuation funds 2/3rds is taxed – if assets have been owned for more than 12 months).
- Realise capital losses if offsetting capital gains have been derived;
- Negative gearing can be used for income producing investments such as rent-producing property etc; Care should be taken, however, to ensure that it is appropriate to your needs;
- Compensation or damages – arrange to receive as composite lump sum not in income form or with specific income components;
- Use mortgage interest offset accounts (if appropriate);
- Eligible Termination Payments (ETP's) should be rolled over, particularly if being received before you are 55 years of age;
- Defer realisation of capital gains by deferring the disposal of the asset until subsequent financial year;
- Defer disposal of asset to ensure that it has been held for at least 12 months in order to obtain the benefit of the discount (50% for individuals and 33.34% for super funds);
- Consider salary sacrifice arrangements to take advantage of fringe benefits for which concessional valuation methods apply (eg motor vehicles);

- If you are employed by a public benevolent institution, public hospital, private non-profit hospital, religious institution, or charitable institution promoting the prevention or control of disease in humans, take advantage of the exemption of fringe benefits (capped) that can be provided by these institutions.

Maximise and Accelerate Deductions

- Negative gearing of income can be a substantial tax benefit (if appropriate for your circumstances);
- Make sure that capital losses are carried forward and offset against capital gains;
- Make sure that you can substantiate income tax deductions;
- Deductible superannuation contributions must be paid by year end;
- Bring forward outlay for deductible expenses;
- Maximise depreciation deductions on rental properties through the proper documentation of property purchases to separate depreciable assets. Alternatively, consider using a quantity surveyor to value depreciable assets. A quantity surveyor can also determine the appropriate costs of buildings for special income producing property write-offs;
- Plan your retirement to maximise potential deductions for “undeducted contributions” upon receipt of an allocated pension or annuity;

Increase Offsets and Credits

- Franked dividends from share investments attract the franking credit offset;
- Medical Expenses – have one spouse incur all concessional expenditure to maximise possibility of obtaining the offset (net expenses must be in excess of \$1,500);
- Spouse superannuation contributions – consider making superannuation contributions on behalf of low or non-income producing spouse;
- Private Health Insurance – if rebate not already claimed as reduced premium;
- Dependent offsets (subject to special rules and/or other claims);
- Senior Australians are entitled to special rebates;
- Superannuation contributions (undeducted) rebate (if assessable income and any reportable fringe benefits is less than \$31,000) has been replaced by the government co-contribution scheme. Eligible taxpayers who contributed to their own superannuation funds may qualify for a government co-contribution payment of up to \$1,000;
- Low income rebate of \$150 applies automatically if income is below \$20,700 and reduces thereafter until income reaches \$24,450.
- Ensure your entitlement for a superannuation pension and annuity offset (maximum 15%);

Reduce Tax Rate & Penalties

- Tax File Number – disclose to employers, investment bodies and superannuation funds;
- Minors – avoid deriving unearned income (interest, trust income etc) in excess of the minors’ thresholds;
- Salary sacrifice – consider increased employer superannuation contributions in lieu of salary increases or employee contributions;

- Fringe Benefits – take advantage of fringe benefits for which concessional valuation methods apply (eg motor vehicles);
- Take advantage of exemption of fringe benefits (capped) provided to employees of charitable institutions, public benevolent institutions, public hospitals etc.;
- Private Health Insurance – take out private health insurance to avoid Medicare Levy Surcharge for high income earners;
- Structure holdings of investments between family members so that negatively geared investment properties (and other investments) are held by members with higher incomes, shares paying fully franked dividends are held by members with modest incomes or low incomes, and interest bearing and positively geared investments are held by low income earners;
- Minimise penalties by completing income tax returns on time and by paying taxes by their due dates.

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