

strategyplus

Osborne Yuille
accounting & taxation 



FROM THE EDITOR

This tax season we want you to get the most out of your return.

It's hard to believe that it's that time of year already – the time which sees most of us starting to prepare, once again, for our annual duel with the Tax Office. So many people leave their tax planning to the last minute. A better approach is to give yourself time to sit down and plan your end of year tax return. Consider ways in which you can legitimately increase your deductions and get back some of

those tax dollars that have been taken out of your pay cheque during the year – or put some strategies in place to prevent large tax expenses being taken out of your pay cheque in the future.

Laws change and the increasingly aggressive approach of the Tax office means you should make sure your tax return is beyond reproach. At the same time there are still plenty of ways to legitimately maximise your entitlements and minimise your tax. In this edition of Strategy Plus we outline a number of things to watch and some effective ways to get the most from your tax return.

Claire Osborne

Managing Director



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Quote of the day...

'You must pay taxes.
But there's no law that says you gotta leave a tip.'

~ Morgan Stanley Advertisement

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PROPERTY VERSUS SHARES – THE GREAT DEBATE

Australians have a love affair with property, but there's little doubt that from a tax perspective shares can give a more favourable outcome. Consider the substantial costs that come with property investment. Stamp duty, acquisitions costs, land tax and ongoing expenses like water rates, council rates and possible strata costs should all be factored in. In contrast, the only tax that applies to shares is the Capital Gains Tax (CGT) on profits. With many Australian shares you also have the benefit of imputation credits.

Depreciation allowances – promoted heavily by developers – are also overrated. Remember that these allowances decline over time – the items being depreciated will continue to lose value and in time will have to be replaced.

The final verdict will only really be decided by what happens to share and property prices over the long term; however when it comes to tax breaks, shares beat property hands down.

Considering shares or property? Call Osborne Yuille for sound financial advice.

how to...

MINIMISE YOUR TAX



LOUIE LIU says:

People for centuries have complained about paying tax and parting with their hard earned money. We would all

agree that much of our tax money is wasted by government and that there are some taxes, such as the Payroll Tax, which are simply iniquitous. Why should a company be punished with a tax for hiring and employing staff? An employer possibly wouldn't mind paying the tax if he knew it was going to be spent wisely on helping small business or on training. However, when he is told that the money goes into internal revenue and sees the waste of tax payer's money by governments, it's a bit hard to bear.

I guess, though, if we are paying tax then obviously we are making money. However, this is not to say we should pay more tax than we have to. There are ways we can legitimately minimise (not evade!) our tax bill. We know tax minimisation schemes are under the microscope by the Tax Office and at present they are investigating over 500 people who have possibly evaded tax using offshore tax havens. So let's legitimately minimise tax and not get caught up in schemes that can be classified as tax evasion.

“There are ways to minimise your tax legally!”

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TASTY TAX TIPS FOR 2011

Work-related deductions

It's important to understand that employees in some occupations are able to claim deductions, while others are not. People in trades, for example, can often claim clothing allowances for uniforms. Office workers, on the other hand, generally cannot – unless the work attire is a uniform or clothing with a business name or logo on it. Whether we agree with this ruling, this is how the ATO sees it – that office worker attire, in most instances, is not a specific uniform that is essential to the business the worker is involved in.

Any work-related expenses you try to claim in your tax return must be work related. For example, normal travel to and from work isn't a business expense and cannot be claimed as a tax deduction. There are exceptions to the rule, however. Tradesmen who have to carry heavy machinery or tools to work can claim travel expenses as a deduction.

1 KEEP GOOD RECORDS

Keep complete records of your work expenses to justify the work-related expenses you wish to claim as deductions. If you face an audit at some stage in your working life and can't prove your claims you may have to pay additional tax and a fine or worse still face a tax fraud charge.

2 SELF EDUCATION

To be deductible, self-education expenses must be incurred on a course specifically related to your current occupation. Providing the course is approved, expenses such as tuition fees, text books and journals, depreciation of library collections, fares & travel costs and accommodation – as well as interest on loans to finance any of these expenses – can all be claimed.

3 MOTOR VEHICLES

If you are using your motor vehicle for work-related travel (not to and from work, except in certain circumstances) you can claim a deduction. Various methods can be used to calculate this claim – pick the one that gives you the highest deduction:

- Use the **cents per kilometre** method if you have travelled substantial kilometres.
- You can claim a **standard depreciation**, which does not require you to keep a log book.
- If you are claiming a deduction based on the actual business use of the vehicle, you need to maintain a **log book** for at least 12 weeks and have receipts of all expenses.
- Use the **one-third** of actual costs method if your car has travelled more than 5000 kilometres. Again you need receipts of all running expenses.

4 DECLARING INCOME

If you did some extra work at the end of the financial year, knowing that you could be doing less work the following year, you may choose to defer payment until July 1. This is often the case with consultants or contractors.

A retiree can save themselves thousands of dollars in tax liabilities by retiring in July rather than June.

5 SALARY SACRIFICING

Another useful tax break is salary sacrificing into superannuation. Savings into super are taxed at 15% instead of the personal marginal tax rate. A person earning \$100,000 a year and salary sacrificing \$7,800 a year gets a tax break of \$2,990 per annum.

Salary sacrificing can lower your marginal tax rate by dropping you into a lower tax bracket and really boost your superannuation account. In this way it's a much better strategy than simply saving after tax money.

Be aware of the concessional and non-concessional caps when salary sacrificing into super. Visit www.ato.gov.au for key superannuation rates and thresholds.

A retiree can save 1000's in tax by retiring in July rather than June



Strategies for Investors

AVOIDING CAPITAL GAINS TAX

There are ways to avoid Capital Gains Tax (CGT) on property investments. Investors who have a long-term view of property investment could consider buying a property through a Self Managed Super Fund (SMSF). Keeping the property until you have retired and are over 60 years of age avoids the CGT on the property, if you decide to sell it at that stage. If you decide to keep the property, the rent received is tax free.

Strategies for Couples

1 JOINT BANK ACCOUNTS

Most couples, when setting up their bank accounts, set up joint savings accounts. This may seem the obvious thing to do when starting out, but over time things can change. One of the parties all of a sudden becomes the main breadwinner, perhaps due to a baby coming into the household. This main breadwinner is also now the main tax payer. Look at those savings accounts and move them into the stay-at-home spouse's name. Otherwise the interest is split and fifty per cent of the interest income is added onto the higher paid spouse's income, which means they pay tax unnecessarily. For a spouse on a top tax rate this can amount to thousands of tax dollars to be saved.

2 INCOME SPLITTING OPPORTUNITIES

The same strategy applies to investments. Income splitting is simply making investments in the name of the person in the lowest income tax bracket. By doing this, earnings will be taxed at the lowest possible tax rate.

The strategy applies to most investment options, from term deposits and debentures through to shares, properties and Discretionary Trusts.

3 SPOUSE CONTRIBUTIONS

It is plausible to receive an income tax rebate of up to \$540 by making sub-contributions on behalf of low-income or non-working spouses. An undeducted spouse contribution of up to \$3000 can be made if the spouse is earning less than \$10,800.

4 CONTRIBUTION SPLITTING

Contribution splitting allows you to 'split' with your spouse certain contributions made on your behalf to your superannuation fund.

A person paying tax of 30% or more may be better off salary sacrificing and splitting the contribution to his/her spouse's super to boost that partner's super – rather than contributing monies to super in after tax dollars.



At retirement, if one spouse is 60 and the other is 55 it pays to boost the super of the spouse who is 60 and draw from that super account – and let the other spouse's super accumulate until age 60 when it is tax-free.

BEN CHIN accountant

Strategies for Parents

CHILDREN'S EDUCATIONAL ACCOUNTS

Most couples setting up an educational fund for their children tend to do this in a joint account or in one of the spouse's names. It could be prudent to put the savings in the child's name rather than one of the spouse's names – from a tax savings point of view.

A minor can earn up to \$3,333 a year, income tax free. A savings account of \$50,000, for example, earning 6% would be below this tax-free threshold.

It is important that parents don't touch these savings, other than for a child's education or future needs. Otherwise the Tax Office may question whether the investment is for the child or is a tax rort.

Strategies for Retirees

TRANSITION TO RETIREMENT

A Transition to Retirement strategy allows a person over 55 years of age to access their super in the form of a pension (income stream) without retiring or satisfying another condition of release. In this way they also have the opportunity to reduce their working hours, without reducing their income. Any part-time income is topped up with a regular 'income stream' from super savings.

Depending on your level of income and marginal tax rate, a Transition to Retirement strategy can be a great way of boosting super savings, while cutting your tax bill.

You can salary sacrifice into your super fund up to your concessional (before-tax) contributions cap, and replace that income with tax-free (if over 60) or concessional taxed pension payments (if under 60).

Take care not to over-contribute to salary sacrificing, otherwise you will be taxed at the top marginal tax rate on any monies over-contributed.

For more information on the Transition to Retirement strategy visit www.ato.gov.au

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By contacting us as detailed above you may request not to receive further communication such as this from us and we will give effect to that request. Please allow two weeks for your request to be actioned.

BE AWARE OF THE SMALL BUSINESS CGT EXEMPTION

Small business owners can sometimes use the proceeds from the sale of their business assets to help fund their retirement. Instead of paying CGT at the time the business assets are sold, the sale proceeds can be rolled into super, where they form part of the Eligible Terminations Payment. To be eligible for the CGT rollover relief the business and assets must be under \$5 million; the maximum exemption any dividend can claim is \$500,000.

Where the person claiming the CGT is under 55 the benefit must be rolled over into the super fund, where it will be preserved. For those over 55, the benefit is treated as a restricted non-preserved amount.

Strategies for business owners



DAVID SMART says:

Small business is always under the Tax Office spotlight. It's important to ensure that your tax strategies will stand up to the scrutiny of

the ATO. Remember you have a legitimate right to minimise your tax legally, but not avoid it. Here are five strategies:

1 OFFSET CAPITAL GAINS AND LOSSES

Both capital gains and losses are quarantined from ordinary income. If you have had capital gains during the year see if you can offset these against previous unrealised capital losses, which can be written off and realised before June 30. Make sure you keep a record of all capital losses. They will be valuable for any future capital gains you make.

2 DEDUCTIONS FOR BAD DEBTS

Remember to get a deduction for bad debts. They have to be physically written off before the end of the financial year. To be a legitimate bad debt there must be a situation where you have given up all hope of collecting the debt. It is a good idea to minute the write off.

3 WRITE OFF OLD PLANT AND EQUIPMENT

Review the assets in your books for any write downs or write offs, where assets in the books have no real value. These write offs must be declared as a deduction prior to June 30.

4 SUPERANNUATION

Ensure that you have paid all your compulsory super guarantee contributions prior to July 28 (ATO deadline). If you don't meet the obligations you will be liable for penalties.

Also ensure that additional contributions the company has paid to employees or salary sacrifice arrangements employees have made are within the government's deductible contributions limits.

5 STOCK ON HAND

It is important that you do a legitimate stock take prior to June 30 to include a value in your accounts of stock-on-hand. It is not good enough to simply take a guess. The Tax Office, if it does an audit, will be looking for stock take records detailing a physical count and pricing. If you find you need to write off stock prior to the end of the year make sure you have done this before June 30 and qualified your action by doing it.

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Competition closes July 29th, 2011.