

# ASPECTS OF FINANCIAL PLANNING



## End of financial year planning April 2014

With 30 June 2014 fast approaching, it is a good time to ensure your year end financial strategies are in place. You may also want to take the opportunity of reviewing your finances for the coming financial year. In doing so, it may be worthwhile to consider the following list of suggestions.

# End of financial year planning

## April 2014

### Top 5 tax tips

#### 1. Bring it forward

Where possible, in order to bring forward tax deductions, work related expenses should be paid in this financial year. These include self education expenses, subscriptions to professional literature, membership fees for professional associations and home office related expenses.

#### 2. Insurance discounts

Premiums for personal income protection insurance can usually be paid one year in advance with a discount for this annual payment. This provides a significant benefit as opposed to paying in regular instalments.

#### 3. Investment deductions

It is important to understand what is tax deductible in relation to your investment property, shares and managed fund investments.

Most of the expenses incurred with managing an investment property - for example strata fees and council rates - are tax deductible. This also applies to share or managed fund expenses as well as the proportionate ongoing fees for financial advice. Some of these, for example interest on a margin loan, may be able to be pre-paid one year in advance. You need to confirm which fees are tax deductible and can be claimed.

#### 4. Realising capital losses

Realising losses on poor investments can help to offset tax payable on any capital gains made throughout the year. However it is important to sell assets legitimately, not purely for taxation purposes. The ATO has indicated it will outlaw 'wash sale arrangements', so be wary, certain transactions may be scrutinised as to the primary purpose of the sale.

#### 5. Tax deductible gifts and donations

Many people forget about the tax deductible gifts or donations they have made during the year. Dig out your receipts and have them on hand for tax return time. Alternatively, if you are thinking about making a donation, make sure you do so before 1 July 2014.

### Superannuation opportunities

#### Superannuation contributions

Review the amount of superannuation contributions you have made in this financial year and consider the benefits of making additional concessional (CCs) or non-concessional contributions (NCCs).

Effective this 2013/2014 financial year only, the limits upon concessional contributions\*\*:

- For those under 59 years of age at 30 June 2013, the cap is still \$25,000.
- For those over 59 years at 30 June 2013, the cap is \$35,000##.

\*\* For those with adjusted taxable income greater than \$300,000, contribution tax is 30%.

## From age 65, contributions are subject to a work test

The cap on NCCs this 2013/2014 is \$150,000 per person per year. Individuals who are under 65 at any time in a financial year can bring-forward two years' worth of future NCCs, making the NCC cap \$450,000. Contributions exceeding the NCC cap will be taxed at 46.5%.

#### Claiming a personal tax deduction for superannuation contributions

Many clients will have made personal contributions to their superannuation fund in the lead up to 30 June with the view of claiming a personal tax deduction for all, or a part of the contributions. This can be a tax effective way to build retirement savings and reduce taxable income, which reduces your tax liability. However in order to claim a tax deduction for a personal superannuation contribution, there are a number of conditions to be met.

Generally, the only people who can claim a tax deduction for personal contributions are those who are either self-employed, those under the age of 65 years and unemployed and certain employees (as defined under the superannuation guarantee laws).

One condition for employees to meet in order to claim a tax deduction for personal contributions is to ensure less than 10% of their total assessable income plus reportable fringe benefits and reportable employer superannuation contributions is derived from employment.

A further condition for all is to ensure you give your superannuation fund a valid notice that advises your intention to claim a tax deduction within certain timeframes.

So, if you have made a tax deductible contribution to your superannuation fund, check with your accountant, tax agent, or financial adviser to ensure that the appropriate notice has been lodged and whether you meet all the conditions in order to claim your tax deduction.

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### Review salary sacrifice arrangements

Subject to setting up an effective salary sacrifice agreement with your employer, consider salary sacrificing any year end bonuses into superannuation. With the limits on contributions and the changes in tax thresholds, it is valuable to review salary sacrifice agreements for next financial year. You may consider either increasing your contributions to superannuation in order to build your retirement benefit or decreasing contributions if you think you may now exceed the limits.

The previous compulsory amount of superannuation guarantee (SG) payable 9% has been increasing as shown in the table below:

Year	Rate: (%)
2013/14	9.25%
2014/15	9.5%

However, the current Government is seeking to freeze the 2014/15 rate at 9.25% but, at the time of writing, this was defeated in the Senate.

### Government co-contribution

Many people who are on a low to medium income, earning less than \$33,516 (the lower income threshold) or earning up to \$48,516 (the higher income threshold), can make a personal NCC to their superannuation fund before 30 June in order to receive the Government's co-contribution. Please note that any salary sacrificed superannuation contributions will be added back to count towards your income for co-contribution eligibility purposes.

- For 2013/14, maximum Government co-contribution is 50% of the first \$1,000 of NCCs made.
  - This maximum co-contribution of \$500 for people with total income at or below the lower income threshold of \$33,516.
  - This maximum co-contribution payable will phase down at 3.333 cents per dollar of total income above the lower income threshold, phasing out to nil once total income reaches the higher income threshold of \$48,516.

### Spouse superannuation contributions

You can make a spouse contribution and may be entitled to a maximum tax offset of up to \$540 each financial year if:

- The person was your spouse when you made the contribution. A spouse includes a person who,

although not legally married to you, lives with you on a genuine domestic basis as your husband or wife. This includes same sex couples

- You and your spouse were Australian residents when you made the contribution
- Your spouse (the recipient) is younger than 65 or between 65 and 70 years of age and has worked at least 40 hours in 30 consecutive days within the financial year. You however can be of any age, employed or retired
- The total of your spouse's assessable income, including total reportable fringe benefits and reportable employer superannuation contributions for the financial year is less than \$10,800. The tax offset then reduces as the recipient's income increases beyond \$10,800 and cuts out completely at \$13,800
- You did not claim a tax deduction for the contributions
- The contribution was made to a superannuation fund which was a complying fund in the financial year in which you made the contribution

Please note that you will not be entitled to the tax offset if at the time of making the contribution, you and your spouse are living separately and apart on a permanent basis.

### Superannuation contributions splitting

Superannuation contribution splitting allows members of a couple to split certain superannuation contributions with their spouse. Only CCs are able to be split with your spouse and these are subject to a maximum limit known as the "maximum splittable amount".

The maximum splittable amount is the lesser of:

- 85% of the CCs for that financial year; and
- The CC cap for that financial year

Individuals are typically\*\* restricted to splitting contributions once every financial year based on the previous financial year's contributions. For example contributions made between 1 July 2012 and 30 June 2013 will typically be able to be split between 1 July 2013 and 30 June 2014. Thus 30 June 2014 is the usual deadline for splitting contributions made in 2012/13.

\*\*There is flexibility if the intent is to roll over the whole balance of a super account before the end of the same financial year in which the contributions were made.

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### Superannuation pensions

It is a requirement of all superannuation pensions that at least one payment is made each year. To calculate the minimum, the account balance at 1 July each year is multiplied by the relevant age based percentage factor.

The minimum payment factors are:

Age	Minimum annual payment
Under 65	4%
65 - 74	5%
75 - 79	6%
80 - 84	7%
85 - 89	9%
90 - 94	11%
95 and over	14%

You must ensure the required minimum is drawn by 30 June 2014. This will be most relevant for those in self managed superannuation funds, as public offer funds will ensure the minimum is drawn.

### A new year

Last year's tax tips may not be appropriate for this year as changes to superannuation and tax have moved the tax planning goal posts. Start afresh this year and work off the information available to you for 2013/14.

### More information

See your Financial Index Adviser for more information about these end of financial year strategies as well as new financial planning opportunities for 2014/15.

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