Smart plans to reduce tax

NOEL WHITTAKER

There are a number of strategies you can use to help reduce your tax bill.

JUNE 30 is rapidly approaching, which means it is time to seek advice about ways to save tax.

Smart tax planning means deferring income while bringing forward expenses. For example, if you have money to spare, think about placing it on a term deposit with the interest maturing after June 30. The interest will then be taxed next year.

If you have deductible expenses, such as repairs and maintenance on investment properties, try to bring them forward so you will enjoy your tax deduction in the current financial year.

Investigate pre-paying 12 months interest on your investment loans. Pre-paying a year's interest on a loan of $300,000 may cost $15,000, but you could get up to $7350 back as a tax refund. This strategy will require negotiation with your lender – you can't just bank the equivalent of a year's interest into the loan account, because all the lender will do is take one month's interest and credit the rest to the principal.

Salary sacrifice to superannuation is still a great strategy because such contributions lose just 15 per cent, whereas money taken in hand will probably lose at least 34.5 per cent. Provided lack of access is not a problem for you, superannuation is the perfect place to invest an end-of-year bonus.

If you are a higher income earner, or salary sacrificing now, make it a priority to check your level of contributions as soon as possible. The maximum deductible contributions are $30,000 a year for those under 50, and $35,000 a year for people 50 and over. These include the employer compulsory 9.5 per cent.

A simple and useful strategy if one spouse will have low earnings is to make a spouse contribution of $3000 so you can become eligible for the tax offset – it is the best way I know to get a capital-guaranteed 18 per cent on your money. The amount of the offset is 18 per cent of the lesser of $3000 or the amount of the spouse contribution actually made, so a contribution of $3000 would give you an immediate tax offset of $540, which would reduce your own tax.

Once a spouse's income exceeds $10,800 the offset tapers – no offset is payable once spouse income exceeds $13,800.

For capital gains tax purposes, the relevant date is the date the sales contract is signed. Defer signing a contract until after June 30 and you will get an extra year's use of the money you owe the tax man. If you are retiring, it may also mean you pay at a lower rate if you will be in a lower tax bracket.

Another strategy is to sell assets that will trigger a capital loss in the same year as you make a capital profit – the losses will reduce the CGT as they can be offset against the gains. Even if this means selling shares you believe have strong potential, there is nothing to stop you selling them prior to June 30 and then buying other shares when you are ready.

If you are eligible to contribute to super, but don't have an employer making contributions for you, you could also reduce CGT by making a tax-deductible contribution.

CASE STUDY: A retired couple in their early 60s, which makes them eligible to contribute to super and also claim a tax deduction. They sell an investment, triggering a $140,000 capital gain, which will drop to $70,000 when the 50 per cent discount is allowed for. CGT will be calculated by adding $35,000 to the taxable income of both. They could each contribute $200,000 to super and apportion it $35,000 concessional and $165,000 non-concessional. This would create a tax deduction of $35,000 each, which would wipe out the capital gain. The only tax is the 15 per cent on the $70,000 concessional contributions.

Q You said in a recent article that "Once a person reaches 65 they can withdraw as much money as they like from their super". Is the age not 60 rather than 65 for unlimited and tax-free withdrawals from super?

A Yes, money is tax-free after 60 but they cannot withdraw the money prior to age 65 unless they satisfy a Condition of Release – this means they need to resign from a job. It need not be their main job.

Q I am retired and receive income from shares and property. I also have a super account through which I plan to buy shares. How can I claim franking credits for the shares owned through the super account?

A The administrator of your fund, or yourself if you don't have an administrator, just has to complete the appropriate forms to receive the refund from the tax office.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Banks have spoilt us rotten but the party's over

By **DAVID POTTS**

FAR be it for me to rub it in, but if you bought any bank shares two months ago you'll have lost more than they'll pay in dividends this year.

Anyway, considering they've been written off by brokers as overvalued for so long it's not funny, maybe the banks will reach their record again or even break it.

More likely they'll mark time. Despite dividends to die for – returning more than 7 per cent after franking – they've become expensive relative to their profitability, other shares, banks elsewhere or whatever else you want to compare them with.

Mind you, if you don't have to sell it doesn't matter when bank shares drop because living off the dividend will do just fine, though you'll be lucky if it grows much more than inflation.

For a part-pensioner hit by the budget – and I'm afraid it's under appreciated just how badly – at least lower bank shares will help you run down your assets.

Sorry, only trying to help.

I never thought I'd say this, but we've been spoilt rotten by the banks. All that double dipping of dividends and capital gains is almost unbecoming.

Take CBA shares which, in five years, have increased 66 per cent, twice the gain of the overall market, all the while paying $20 a pop in fully franked dividends.

And just think, if you'd bought CBA shares five years ago when the dividend yield was 4.6 per cent it would now be 8.2 per cent, or a whopping 11.6 per cent after franking.

That's more than the sharemarket rises in most years.

Not that I want you to be envious or anything; if it's any consolation, even the smarties who do own CBA shares are probably kicking themselves for not buying more. Besides, you might yet have the last laugh.

I'm not saying the bank run is over yet, but in the words of the late American economist Herb Stein, "if something can't go on forever" – like the CBA gaining 66 per cent every five years with the same again in dividends – "it won't".

Technically the banks are already in a correction, down more than 10 per cent from their March peak.

Once the dividends stop growing – and they must be close to peaking without lifting the payout ratio which would crimp their capital ratio – the market will move on.

The banks' interest margin – the difference between paying for money and lending it, their bread and butter – is at rock bottom.

And since the regulator wants to lift the amount of capital they should hold against mortgages, not to mention the clampdown on highly profitable loans for property investors, that will fall further.

At the same time the profit surge of the past two years from reducing bad debt expenses, also a record low, is over as the mining collapse takes its toll.

But whether the brokers are right this time depends on how soon punters realise the banks don't have the dividend game all to themselves. These days, even BHP yields more than the CBA.

Banks are in a correction, down over 10 per cent from their March peak.