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Year end tax planning – helping to make the most of your personal wealth

Think about it!

When it comes to tax planning, don't wait until June to review your personal circumstances. Ideally your tax planning should occur on an ongoing basis to identify any shortcomings in your existing arrangements that can be addressed well before year end. It is also important to plan out strategies for the coming financial year.

Regardless of the tax benefits of a particular strategy or investment, it should be able to stand on its own merits – not just provide a tax benefit. A tax benefit will not make a poor investment into a good investment.

Here are some of the strategies available.

Super tax strategies

One of the most tax efficient investment vehicles is superannuation.

For example have you considered salary sacrificing into super? **Salary sacrificing** is where, with approval from your employer, you forgo some of your salary in exchange for super contributions. Salary sacrifice may offer tax advantages for some people, depending on their personal circumstances. For example, instead of being taxed at a marginal rate of up to 45% plus the Medicare levy, the sacrificed amount is taxed at only 15%.

Alternatively, after tax contributions may be more beneficial to your personal situation.

If you make after tax contributions and earn an income as an employee, you may also be eligible to receive a Government co-contribution based on your income and how much you contribute.

Under this arrangement the Government has agreed to make a co-contribution to super for each dollar of personal **after-tax** contributions made by people who meet certain criteria.

If you:

- receive at least 10% of income from employment (either as an employee or self-employed - even if no super contributions are paid on your behalf),
- have income of less than \$61,920, and
- are under age 71 at the end of the financial year in which you make the contribution,

you may be eligible for a co-contribution.

Please note salary sacrifice and after tax contributions are subject to certain limitations and contribution caps, so it is important to seek advice before implementing any strategies.

Other superannuation strategies you may wish to consider include:

- making contributions to super for your spouse, or
- splitting contributions to your spouse's super.

An individual may be able to make an after-tax superannuation contribution for the benefit of their spouse (includes de facto spouse) and claim a tax offset. The maximum annual tax offset is \$540, and depends on your spouse's income.

Contribution splitting allows a member to request an annual transfer of super contributions received into their super account, to the super account of their spouse.

If you are a Defined Benefit member, super splitting will only apply to any additional accumulation accounts held.

The potential benefit of splitting contributions may be significant depending on your personal circumstances.

For example, you may benefit through:

- achieving super account balances that are more equal as a couple, retaining flexibility at retirement, and
- splitting to an older spouse in order to gain access to super savings sooner.

Other tax strategies

A number of other strategies may also be of assistance in tax planning, including:

- consider reviewing your salary package to ensure you have minimised your overall tax position,
- utilise any capital losses you may have in your investment portfolio by crystallising these assets to offset existing capital gains – it is important to seek appropriate advice to assess this in light of your overall financial situation,
- where possible, consider splitting assets with your low income earning spouse to achieve income splitting, and
- finally, be sure to invest wisely, particularly if you are considering purchasing a product purely based on an associated tax relief.

No matter what your strategy is, it's important to seek appropriate advice based on your personal situation before making any decisions.

Managing your tax affairs

When it comes to doing your tax return, many people do it themselves, and more and more people are starting to lodge their returns electronically via E-tax (a service on the Australian Taxation Office's website – ato.gov.au).

As your financial affairs become more complicated, you might wish to start thinking about using an accountant to manage your tax.

Certified Practising Accountant is a designation given to an accountant by the industry body CPA Australia. It ensures that the accountant holds an undergraduate degree, undertakes continuing professional development and has a certain level of experience. You can search for a CPA in your local area by going to their website – cpaaustralia.com.au.

Tax planning should ideally form part of your overall financial planning, as it may well have an impact on your overall financial situation. You should be proactive with your tax planning – and discuss it as part of your broader financial situation with a licensed, or appropriately authorised, financial adviser.

Action points

Making the most of your tax planning generally requires an ongoing commitment to better managing your finances and making the most of the opportunities available.

Some of the strategies include:

- making the most of superannuation,
- reviewing salary packaging arrangements,
- utilising capital losses to offset capital gains,
- asset splitting with your spouse, and
- being cautious when presented with tax driven investment opportunities.

Before taking action, remember...

While it is very important to consider tax and put in place strategies to help optimise your tax situation, tax is just one part of financial planning and should never be considered in isolation.

Generally, a strategy will only be a sound one if it is linked back to helping you reach your personal goals and objectives.

Everyone is different, so some of the strategies mentioned will be more relevant to some than others. The sure way to know whether you are on track is to get financial planning and taxation advice about your own situation.

For more information or to discuss your personal circumstances, contact Mercer Wealth Solutions on **1800 633 403**.

To speak directly with a Mercer financial adviser call **1800 633 403**. We have offices located all around Australia. To find a Mercer office, please visit our website at mercerwealthsolutions.com.au

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