



TAXATION MANAGEMENT

Financial Year End Tax Planning Tips

1. Defer Asset Sales to Manage Capital Gains

If you need to sell a profitable asset, you should consider delaying the sale until after 30 June 2008.

CGT is generally only payable by individuals after they lodge their tax return for the financial year in which an asset is sold. By selling an asset after 30 June 2008, you may be able to delay paying tax on your capital gain for up to 12 months and in some cases longer. If you expect to earn a lower taxable income next financial year (eg because you plan to retire or intend taking leave), the marginal tax rate you have to pay on realised capital gains in 2008/09 may decline considerably. But even if your taxable income stays the same, you may find your marginal tax rate is lower in the 2008/09 financial year. This is because, from 1 July 2008, the income thresholds at which the 41.5% and 46.5% marginal tax rates apply will increase.

Note: It may also be a good idea to hold assets for more than 12 months to take advantage of the 50% CGT discount. CGT is only payable on 50% of the capital gain if an asset is held by an individual for more than a year.

2. Boost savings and save tax via salary sacrifice

If you are likely to receive a bonus before

30 June 2008, you should consider asking your employer to salary sacrifice your payment into superannuation.

When you salary sacrifice a bonus (or salary/wages) into superannuation, the contribution is taxed at a maximum rate of 15%. If taken as cash, your bonus will be taxed at your marginal rate (which could be as high as 46.5%). Depending on your circumstances, a salary sacrifice strategy could reduce the tax rate payable on your bonus by up to 31.5%. To be effective, the salary sacrifice arrangement needs to be in place before your employer determines your bonus entitlement. When sacrificing regular salary or wages, the arrangement should commence on the first day to which the next pay period relates. With any salary sacrifice arrangement, it's important to have the agreement thoroughly documented and signed by yourself and your employer.

3. Pre-pay 12 months interest on a investment

Pre-paying your interest bill for up to 12 months before 30 June 2008 may enable you to bring forward your tax deduction and pay less income tax this financial year.

If you take out a fixed rate investment loan and pre-pay up to 12 months interest before 30 June, you can bring forward an expense that would otherwise be tax-deductible in the following financial year.

This is despite the fact the majority of the interest payment may relate to servicing your loan after 30 June 2008. This additional tax deduction could help you to reduce your taxable income and result in some significant tax savings this financial year.

4. Use losses to reduce capital gains tax

If you have to pay capital gains tax (CGT) this financial year, you should consider selling poor performing assets that no longer suit your circumstances before 30 June 2008.

By selling a poor performing asset, you can use the capital loss you incur to offset a realised capital gain from another asset in the same financial year, including capital gains received as part of a unit trust distribution. This can enable you to manage your CGT liability. By using this strategy, you could save on CGT this financial year and free up money for more suitable investments.

5. Make personal deductible super contributions

If you earn less than 10% of your income from eligible employment (eg you are self-employed or not employed), you should consider making personal deductible super contributions before 30 June 2008.

If you invest in super, you may be eligible to claim your contribution as a tax deduction. This tax deduction can then be used to reduce your taxable income (and the amount of income tax you are required to pay). While the personal deductible super contribution will be taxed at 15% in the fund, the net tax savings can still be quite

significant, Contributing to superannuation can help ensure you don't put all your eggs in the one basket (ie your business). Through superannuation you can select a mix of assets (including cash, bonds, property and shares) to help you achieve your lifestyle and financial goals.

Note: When using this strategy, you should keep in mind that personal deductible super contributions (and certain other amounts) will count towards your concessional contribution (CC) cap. From 1 July 2007, the CC cap is \$50,000 pa or, if you are aged 50 or over, \$100,000 pa for five years until 30 June 2012. If the cap is exceeded, excess contributions will be taxed at 31.5%, in addition to a contributions tax of 15%.

6. Top up your super with help from the Government

Do You Qualify for a Government co-contribution?

If you make a personal after-tax super contribution of \$1,000 (2), the Government may add up to \$1,500 to your super account. That's a return of up to 150% on the amount contributed.

To qualify for the full co-contribution, you need to earn \$28,980 (1) pa or less and a reduced amount may be paid if you earn less than \$58,980 pa. The Australian Taxation Office will determine if you qualify based on the data received from your super fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return. As a result, there can be a time lag between when you make your personal after-tax contribution and when the Government pays the co-contribution.

1 Includes assessable income plus reportable fringe benefits.

2 Your personal after-tax contributions (but not Government co-contributions) will count towards the non-concessional contribution (NCC) cap. From 1 July 2007, the NCC cap is \$150,000 a year (or \$450,000 in one year if you're under age 65 in that year and don't make further contributions in the following two years). If you exceed this cap, excess NCCs are taxed at 46.5%.

If you would like to take advantage of our free consultation or would like to know more about our services please contact us on (07) 3832 6020, Email info@bridgewaterafs.com.au or visit our website on <http://www.bridgewaterafs.com.au>

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