

“Tax can be very complicated and getting it wrong can be very costly.”

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# foresight

THE NEWSLETTER PUBLISHED BY WESTERN PACIFIC FINANCIAL GROUP

## Trauma-free tax time

Whether you prepare your tax return yourself or use a registered tax agent to compile it, it will be a much easier task and much less stressful if you spend some quiet quality time organising all the information you'll need.

Better still, by making sure you have all the necessary papers to hand, neatly arranged according to whether they relate to income, deductions or rebates, you may find a few extra entitlements you may otherwise overlook.

In an ideal world you will have set up an easy-to-use personal tax information system at the beginning of the tax year, allowing you to wrangle all those pesky dockets, receipts and invoices into a neat, logical order as they are received. (OK, perhaps next year!)

So let's assume you're still relying on the trusty shoebox document filing system. Start by allocating the paperwork into the categories of information you'll need to present to your tax accountant or use to file your return yourself.

First off, money in. To work out your assessable income, you'll need information to confirm how much and what type of income you received between 1 July and 30 June. These may include pay slips from your employer, bank or credit union statements for interest earned on your accounts, Centrelink information or pension information from your fund manager, rent statements, dividend advice and fund distribution statements, information about sales of assets subject to capital gains tax (such as investment property or shares).

Next, money out. You'll need to gather all the documents relating to your outgoings. These could include receipts for work-related expenses (such as motor vehicle expenses, tools of trade, uniform or protective clothing, union fees, home office costs), bank statements to confirm interest paid on investment loans, expenses relating to investments, such as brokerage, income protection premiums, rental property expenses, gifts to charities, self-education expenses, medical expense receipts and Medicare reimbursement statements, and private health fund information.

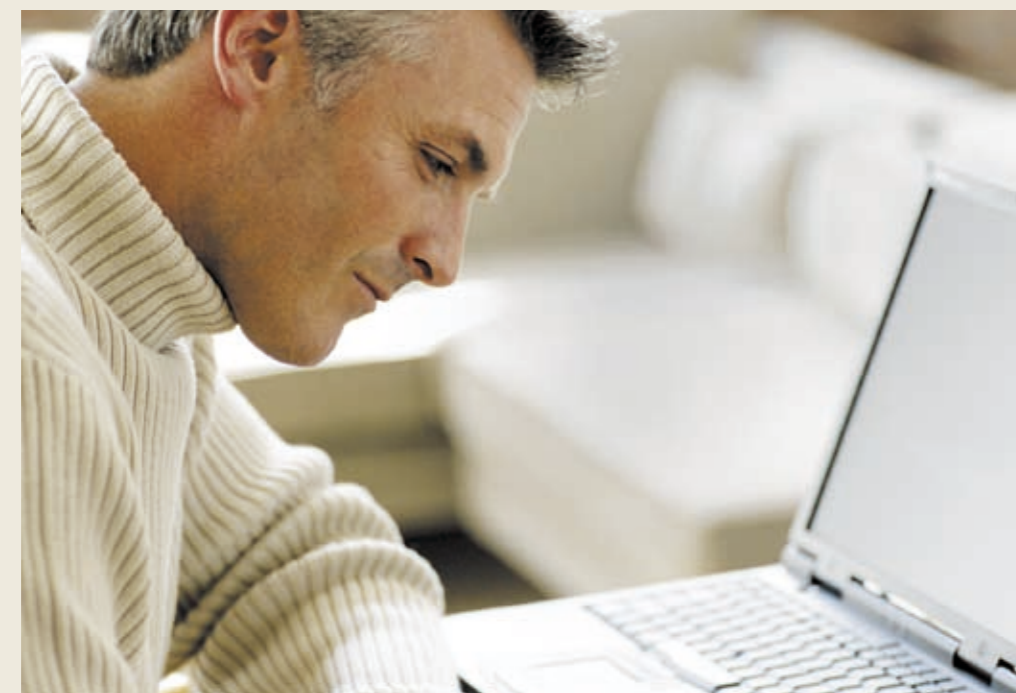
It may not seem so, while you're puzzling over which pile of paper each docket relates to, but this is the easy part. The real challenge is to work out which bits of *money in* are assessable, and to what extent, and which bits of *money out* are deductible or rebateable, and to what extent.

Here's where the help of an experienced tax adviser can be worth real money to you, in terms of tax saved, and invaluable in terms of peace of mind. Plus their fee in preparing your tax return is tax deductible!

Tax can be very complicated and getting it wrong can be very costly.

Talk to Western Pacific's tax and accounting experts to get sound advice about your obligations, recommendations on the right structures for your personal, investment or business circumstances, assistance with compliance requirements and proven ideas for effective tax planning to reduce your tax liability.

To find out more on how Western Pacific can help you sort out your tax challenges, speak to an adviser today.



## Minimise your tax liability

Here are several ideas just sitting within your existing situation that you may not have thought about:

### Married couples

#### Take advantage of the tax-free threshold

You can earn up to \$10,000 without paying tax on your income (combination of tax free threshold and low income tax offset) and the tax rate increases only gradually over the next few tax brackets.

#### Contribution to spouse's super rewards with rebate

If your spouse earns less than \$13,800 and you make a contribution to his or her super fund, you'll be in line for a tax rebate of 18% (max. \$540) of the contribution (up to a maximum of \$3,000). The rebate reduces by \$1 for every \$1 the spouse's income exceeds \$10,800, cutting out at an income of \$13,800.

### Individuals and families

#### Keep count of medical costs

The tax law provides for a tax offset (rebate) of 20% where net medical costs (i.e. the cost to you less any refund from Medicare and your private health insurer) exceed \$1,500 over the financial year.

### Protect your income

Most money experts agree that having income protection insurance, which generally pays up to 75% of your usual income, is a must. And the premiums are tax deductible. All the reasons in the world to have the protection and a tax incentive to boot!

### Employees

#### Home office use

The Australian Tax Office (ATO) sets a guide to reasonable home office costs each year, currently 26c an hour.

#### Salary sacrifice

Here the principle is to reshuffle the way you are paid to gain longer term benefits and reduce your taxable income in the short term. Many people opt to move a bigger chunk of their salary package into super, boosting their retirement income earnings and reducing tax at the same time by moving to a lower tax bracket. Your adviser will be able to help you work out whether this is an appropriate strategy in your particular circumstances.

### Foreign pension recipients

#### Make sure you're only including what you must

If you're getting a pension or annuity from overseas, talk to your adviser to make sure you're only being taxed on the assessable part.

### Property investors

#### Dig a little deeper for all the deductions you're entitled to

It's usually well worth the cost of a quantity surveyor's report on your investment property. Not only will the cost of the report be tax deductible, but chances are it

will unearth deductions which are sitting there ready to be used to reduce your taxable income.

### Investors

#### Take advantage of franking credits

Where all else is equal, if company A pays fully franked dividends, which means 30% of the tax on that income is already paid, and company B doesn't, company A will provide you a better tax outcome.

### Hang in there to reduce CGT

Certain assets, including investment property and shares, attract capital gains tax when you sell them. However, if you hold them for at least a year before you sell you will be entitled to a 50% discount on the capital gain. Therefore, if you make a \$100,000 capital gain on the sale of an investment property, you will only be assessed on a net capital gain of \$50,000. This could translate into lower CGT than would have been the case if you'd sold before the year was up.

### Remember to claim borrowing costs

The cost of borrowing, which may include establishment fees, lender's mortgage insurance, search and valuation fees and the like, to finance an investment are deductible. However, unless these expenses are less than \$100, you have to spread the total cost over the term of the loan or 5 years, whichever is the shorter.

### All taxpayers

Seek professional advice to make sure you're claiming every tax benefit and concession you're entitled to. Speak to your adviser today.



Western Pacific Financial Group Pty Ltd ABN 35 050 159 156  
Australian Financial Services License No: 224662  
Registered Office: 70-76 Yarra Street, Heidelberg VIC 3084  
Email: [advice@westernpacific.com.au](mailto:advice@westernpacific.com.au)  
Website: [www.westernpacific.com.au](http://www.westernpacific.com.au)

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Issue Two | Winter 2008



## Federal Budget 2008

The first Labor Government federal budget in 13 years has now been served up and chewed over.

While the promised personal tax cuts are set to boost the take home pay of all Australian employees, working families received the lion's share of the spoils this time round.

Here's a snapshot of what was in the Budget for individuals and families and how to capitalise on the breaks and reduce the impact of the changes that may have a negative impact on your money situation.

# Take advantage of Budget breaks. Manage Budget busts.

### Tax cuts

From 1 July this year Australian employees will see more money in their take home pay, as the promised tax cuts are implemented.

The 30 cents in the dollar threshold will increase to \$34,001, up from \$30,001. The 40 cents in the dollar bracket will move to \$80,001, up from \$75,001. The top marginal tax rate won't cut in until \$180,001, up from \$150,001.

This means a single person earning the average wage of around \$50,000 a year could end up around \$80 a month better off in the 2008-2009 financial year. The average working family with two young children could be around \$200 a month better off after 1 July, when you take into account the higher childcare refunds, education tax rebates and direct income tax cuts. Families with high school age kids could be around \$170 a month better off.

### New personal tax scale

Current taxable income (\$)	Rate (%)	From 1 July 2008 Taxable income (\$1)	Rate (%)	From 1 July 2009 Taxable income (\$)	Rate (%)	From 1 July 2010 Taxable income (\$)	Rate (%)
0-6,000	0	0-6,000	0	0-6,000	0	0-6,000	0
6,001-30,000	15	6,001-34,001	15	6,001-35,000	15	6,001-37,000	15
30,001-75,000	30	30,001-80,000	30	30,001-80,000	30	30,001-80,000	30
75,001-150,000	40	80,001-180,000	40	80,001-180,000	40	80,001-180,000	40
150,001+	45	180,001+	45	180,000+	45	180,001+	45



### Other tax breaks

Lower income earners will benefit from the increase to the *low income tax offset* (LITO), which will increase from 1 July 2008 to \$1,200 (up from \$750). The amount of LITO reduces after income reaches \$30,000, and cuts out at \$60,000.

Senior Australians can also earn more before having to pay tax, with an increase in the *Senior Australians tax offset* (SATO). Singles will be able to earn up to \$28,867 (up from \$25,867) and a couple will be able to earn up to \$49,360 (up from \$43,360) before tax becomes payable.

### Medicare levy thresholds increase

The Medicare levy low income thresholds will increase for the 2007-08 financial year, that is, the current year. The levy now cuts in at \$17,309 for singles (up from \$16,740) and \$29,207 for members of a family (up from \$28,247). The rate for each dependant child or student increases from \$2,594 to \$2,682 and the threshold for pensioners below age pension age will increase from \$21,637 to \$22,922.

The Medicare levy surcharge threshold will increase from \$50,000 to \$100,000 for singles and from \$100,000 to \$150,000 for families from 1 July 2008, which means fewer Australians will have to pay the surcharge, which is applied if they do not have private health cover.

### Making these tax breaks meaningful

With the prospect of a few extra dollars burning small holes in your pockets, now's a good time to take a step back and think about how the additional cash could be put hard to work.

Here are a few thought-starters:

#### Pay down 'bad debt'

'Bad debt' is non-tax deductible, and includes liabilities such as credit card or store card debt and your home mortgage. Your first money priority should be to eliminate bad debt. Even relatively small additional payments can make a substantial difference to the amount of interest payable over the life of the debt.

For example, let's assume the average working family will be in line for a tax saving of around \$200 a month in the next tax year. It doesn't really sound a lot – probably not much more than the cost of a couple of takeaway dinners and a night at the movies for the family. But if it's paid off your credit card balance on top of the minimum monthly payment, the \$200 a month represents a saving in interest of \$408 a year (assuming a credit card interest rate of 17% per annum).

Alternatively, adding the \$200 a month to your home mortgage repayment could result in a saving of \$104,545 interest over the term of the loan (based on the average loan of \$300,000 over 25 years at 8.5% p.a. interest).

#### Start building your long term wealth

Even a relatively modest amount can build into a worthwhile nest egg over the long term. In fact, thanks to the positive impacts of compound interest and dollar cost averaging, it's likely you'll do better by investing small amounts regularly than by waiting until you've stockpiled a larger sum to invest. The key is regular investment.

By choosing the right investment structure and asset mix, an \$80 a month average tax cut for singles can be transformed into a very healthy investment over the long term. To find out how to start the transformation, contact your adviser and ask them to work out whether an SMA investment, which has no minimum account balance or minimum deposit, would be right for you.

#### Review your retirement income plan

The Budget changes mean senior Australians will be able to earn more income before paying tax. This gives a good opportunity to talk to your adviser about ensuring your retirement income stream is structured to take advantage of the tax break.

### Family Trusts in the firing line

The usefulness of family trusts as a means to reduce income tax by spreading income across a range of trust beneficiaries will be restricted from 1 July 2008, when the definition of 'family' for the family trust election rules is limited to children and grandchildren of the test person or test person's spouse.

#### What to do?

Take the opportunity right now, in the few weeks before the end of the financial year, to have your adviser review your family trust arrangements with you.

You'll need to make sure the trust will be able to comply with the new restrictions and to see whether there are any measures that can be taken before the effective date of the changes to maximise the value of the family trust.

### Changes for employees

#### FBT (1)

As from 13 May 2008, the FBT exemption for work-related items, such as laptops, personal digital assistants or tools of trade, will only be available where the items are used primarily for work purposes. Employees will be restricted to one item of each type per year.

As well, employees will not be able to claim depreciation deductions for the work-related percentage of FBT exempt items, to prevent 'double-dipping' (where the taxpayer could receive a double benefit). If the item was purchased before 7:30pm on 13 May 2008, employees will be able to claim depreciation in the 2008 financial year, but not in future years.

### Luxury car tax up (2)

The tax rate applying to luxury cars increases from 1 July 2008 from 25% to 33%. However, there is no change to the luxury car tax threshold (\$57,123).

### Superannuation co-contribution (3)

From 1 July 2009 the definition of income used to work out eligibility for the super co-contribution will be expanded to include income salary-sacrificed to super. This is likely to mean fewer people will be eligible to claim the government co-contribution.

#### What to do?

1. and 2. If either of these apply to you, get in touch with your tax adviser to discuss your options.

3. The new definition does not take effect until the 2009-10 tax year. This means the opportunity to salary sacrifice into superannuation and make non-concessional contributions to be eligible for the co-contribution is still available until 30 June 2009. This gives you scope to boost your spouse's super balance with the government kicking in as well, so it's well worth having a chat with your adviser to see if this concession makes sense for you.

Even after 1 July 2009, the co-contribution may still be a good way for you to help increase your spouse's super account, even if it may not be quite as attractive as it is now. Make a note to discuss it with your adviser again, closer to the time of the proposed change.

### Changes to means tests

The Budget has tightened up the definition of 'income' applied to various means-tested government support, such as family assistance, child support, superannuation co-contributions and financial and retirement savings assistance delivered through the tax system.

'Income' for the purposes of calculating entitlement to these types of payments may now include salary-sacrifice super contributions, net financial investment losses and net rental property losses and reportable fringe benefits.

#### What to do?

If you are currently receiving family assistance or child support payments or are entitled to financial and retirement savings assistance at present, make an appointment to speak with your adviser to discuss whether and how the changes to the income definition will affect you and what you can do to reduce the negative impact on your personal cash flow.

### Summary

In terms of impact on the personal finances of Australians, the Rudd Labor Government's first Federal Budget delivered a mix of tax breaks and benefits for working families and senior Australians, while tightening up eligibility for government benefits and tax concessions for higher income earners.

While there were no particularly significant changes to superannuation or retirement income arrangements requiring immediate action, the changes do represent a sound reason to work with your adviser to fine-tune your financial arrangements, either to take advantage of the benefits or to manage the potentially restrictive changes.

For the best way to work  
the Budget to your advantage,  
speak to your adviser today.



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