TAX TICKS ✓

Everyone should pay their fair share of tax – and no more. **Chris Wright** looks at strategies for this year … and why you should be planning now for next year.

It's that time again. Every year, as we approach June 30, the nation stops for a moment and thinks: I really hate tax. I want to pay less. I ought to sort that out.

Leaving it to the last minute is not a great idea, as planning happens at the start of a tax year not the end. "Tax planning has really changed from how it used to be," says Andrew Buchan of accounting and advice firm HLB Mann Judd Queensland. "You can't do it at the end of the year any more because you haven't really got the tools to do so. Now it becomes a July/August event for the following year, rather than a May/June event."

The other problem is that the Australian Taxation Office is less and less tolerant of the sort of tax schemes that exist purely to cut the bill at the end of the year.

But there's still plenty you can do to reduce tax, and if you spend as much effort now on next year as this one, that'll pay off.

The ATO crackdown on bogus schemes with no investment value is to everyone's benefit because buying things just for the tax break was always a bad idea. Strategies that have appropriate ATO rulings, however, give you a reasonable chance of making money as well as saving on tax.

So whether it's shunting super contributions around or working out when to realise losses, prepaying interest or claiming a deduction on charitable contributions, there's plenty you can do. "The key element with all of this is you've got to start now," says Philip La Greca, of SMSF advisory firm Multiport. "It's not one of those things you can leave until June 30."

PAY IT FORWARD ✓

A common tax-time strategy is to pre-pay interest and expenses for the next tax year now. That way you lower your current bill. This can be a bit of a false economy – you're still going to pay the tax – but it does make sense if you're likely to change tax brackets.

"It's less of an issue this year than when the marginal scales are changing," says Multiport's La Greca.

You can pre-pay if you've borrowed to invest using a margin loan or home equity loan, receiving a deduction on the interest payments, so the deduction applies this year, even if the interest isn't due until next year. Consider this too if you have an unusually high taxable income this year. Count Financial's Kim Guest says: "By pre-paying, you're locking in the rate – this is good if you expect rates to rise but not so good if you expect them to fall."

Potential savings: Your interest bill, probably at a rate of about 10 per cent, is deductible.

SORT OUT THE SUPER ✓

It's the tax time no-brainer. Putting the maximum allowable amount into super increases your retirement wealth while cutting your tax bill. But it's more important than ever to understand the parameters.

On top of your regular contributions, you're permitted to make concessional contributions that are taxed at a maximum of 15 per cent, instead of your marginal tax rate. But for under-50s, there's a maximum of $25,000 on these contributions; for over-50s, the cap is $50,000.

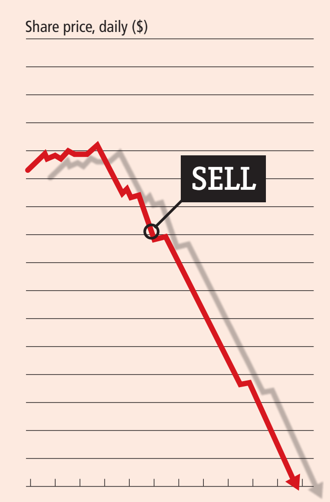
The trick is to get as close to the limit as possible without exceeding it. You can't carry forward your entitlements – if you don't use them, they're gone – but if you exceed them, you face significant penalties. That makes planning especially important, right down to the day you put the cheque in the mail, to make sure the contribution goes in for the right financial year.

Count Financial technical services manager Kim Guest says: "It's the date the cheque is received, rather than the date the cheque is drawn that's important."

Most people do this through salary sacrifice to keep the contributions steady – and ideally that should be set up at the start of the tax year.

Oh, and one more thing: the $50,000 cap for over-50s is likely to be axed from July 1, or at least amended – all the more reason to take advantage now.

Potential savings: If you put $50,000 in and pay 15 per cent tax on it, rather than 45 per cent, you've saved $15,000. Not bad.



USE LOSSES TO OFFSET TAX BILL ✓

If you have loss-making shares in your portfolio and you're not confident about them reviving, consider selling them, so you can use the capital losses to offset your tax bill, particularly if you've made capital gains elsewhere (such as from the sale of a property).

Potential savings: Whatever you've lost on an investment can be balanced against whatever you've made elsewhere.

KEEP DOCUMENTATION IN A SAFE PLACE ✓

Previous capital losses can be rolled forward indefinitely – just don't forget about them and don't lose the documentation that proves their existence. "You might make a loss this year and 10 years down the track you need to use it but you've changed accountants and lost the records – that's fairly common," HLB Mann Judd partner Mariana von-Lucken says. Keep them for use whenever you have an unusually high tax bill due for example, to the sale of an investment property with a big capital gain.

Potential savings: Whatever the loss you've made, that's a deduction for the future.

CLAIM YOUR AGENT ✓

Everyone knows to claim the interest on investment property but how about the fees for the agent who manages it? If you pay fees or commissions to a real estate agent for managing your property, you can claim that cost. But the agent must be legitimate and you'll need statements. Be aware that the Australian Taxation Office has specified three property-related costs people regularly try to claim but shouldn't – commissions paid to an agent for the sale of a rental property, fees paid for finding an investment property and badly labelled fees that bundle up other charges besides the management fee. They're all out.

Potential savings: Management fees for real estate agents typically come to about 7.5 per cent of the rent. Don't forget that this amount is tax deductible.

FILL IN THE FORM! ✓

If you're self-employed and making super contributions, remember to get a notice from your super fund so you can claim the deduction. At year's end, your fund should send that paperwork to you – but every year, people forget to fill it in and lose out.

Potential savings: The deduction on your superannuation contributions.

A REFUND ON THE DIVIDENDS ✓

Let's take a husband and wife, one of whom works while the other is at home. If they've started building a portfolio of shares it may make sense to put the assets in the name of the person who's not working – particularly if it's a yield portfolio and heavy on dividends. That's because, on a low income, you can get a refund on some of the imputation credits that come with your dividends (which are likely to have had taxes paid on them at a higher percentage than your personal rate). However, if the investment was funded with borrowings, it's better to keep the portfolio in the earner's name because the deductible interest on the loan can bring down that person's tax bill.

Potential savings: Imputation credits can be worth a couple of percentage points of the value of your shares each year.