ACHIEVE PROSPERITY

Tax Planning Guide for Individuals 2024

As financial year end approaches
STOP AND ASSESS

- » Do you have a plan you are working towards?
- » Have you thought through how you plan to get ahead?
- » Are you happy with your super fund?
- » Have you kept appropriate records of your expenses?
- » What is your plan to see your income and wealth grow?

First and foremost, all wealth building decisions must be commercially viable. If it makes sense commercially, we'll help you optimise the tax consequences.

With that in mind, what can we do in the lead up to year end?

Stage 3 Tax Cuts are coming after 1 July which may reduce your tax rate.

The Federal Budget came and went without much fuss…

Fundamentals of **TAX DEDUCTIONS**

- » You must have spent the money yourself and weren't reimbursed
- » It must be directly related to earning your income
- » You must have a record to prove it (usually a receipt)
- » Any private use portion is non-deductible

What could you do with **SURPLUS FUNDS?**

- » Pay down debt
- » Reduce your home loan
- » Top up your super
- » Take a holiday
- » Funds for an Investment Portfolio or Property
- » Open an emergency account with enough money for 3 months life expenses

DEDUCTIONS

Work Related **EXPENSES**

Don't forget to keep any receipts for work-related expenses such as uniforms (it must be safety related or have a registered logo that is unique and distinct to your employer), training courses and learning materials, as these may be tax-deductible. The ATO are focussing on over claiming of work- related expenses.

Working from **HOME**

There are 2 options to choose from in managing your work from home expenses. Note that the ATO expects *comprehensive substantiation* which is best managed during the year rather than at tax time.

FIXED RATE METHOD

Claim includes all of these:

- a rate of 67 cents per work hour for data and internet, mobile and home phone usage, gas and electricity, computer and printer consumables, stationery

You can claim a separate deduction for:

- the work-related portion of the decline in value of a computer / laptop or similar device, office furniture
- cleaning but only if you have a dedicated home office (this would be a pro-rata claim and likely to be small compared to cleaning bathrooms, etc).

ACTUAL COST METHOD

Claim the actual work-related portion of all your running expenses. The actual cost method requires detailed calculations and records. For example, you will need to know and have records of the cost per unit of electricity and average units used per hour, which you need to calculate on a reasonable basis.

See here for details. *We think the ATO has designed this to be difficult!*

Tools of **TRADE / FBT EXEMPT ITEMS**

Tools of Trade and other FBT exempt items for business owners and employees can be an effective way to buy work-related items with a tax benefit.

Items may include computer software, laptops, portable tools of trade, briefcases, protective clothing and mobile phones. There must be a connection between the item purchased and the employment.

If structured correctly, an employer is entitled to a tax deduction for a reimbursement to an employee for the equipment cost and can claim any GST input credit with the employee's salary package only reduced by the GST-exclusive cost of the items.

Motor Vehicle **LOG BOOK**

If you do a lot of work related driving, ensure that you have kept an accurate and complete Motor Vehicle Log Book for at least a 12-week period. You should record your odometer reading as at 30 June 2024 and keep all receipts/ invoices for motor vehicle expenses. For more information visit the ATO website.

A logbook is not a simple exercise – you must follow the ATO guidelines. See here for details or use a third party app. A compliant logbook is very unlikely to result in a nice round number such as 80% business use!

Alternatively, you may claim up to 5,000 business kilometres without a log book, using the cents per km method based on a "reasonable estimate". **Bear in mind, you need to be able to justify your claim to the ATO if asked**.

Don't forget that your commute to and from work is a private, non-deductible expense.

Instant Asset **WRITE-OFF?**

This instant asset write-off is for business only. As an individual, you need to depreciate all assets purchased over $300. Any assets purchased for $300 or less can be immediately deducted.

SUPERANNUATION*

*General advice warning - this information is general in nature and does not constitute personal financial advice. Information has been prepared without taking into account your personal objectives, financial situation or needs. Before acting we recommend independent financial advice to review your objectives, financial situation and needs.

Maximise Deductible SUPER CONTRIBUTIONS

The concessional superannuation cap for 2024 is $27,500 for all individuals increasing to $30,000 after 1 July 2024. From 1 July 2024 employer contributions increase from 11.0% to 11.5%.

Super contributions from your employer are included in these caps. Where a concessional contribution is made that exceeds these limits, the excess is included in your assessable income and taxed at your marginal rate, plus an excess concessional contributions charge. We have a longer explanation on our website.

Is your super working for you? Speak to one of our preferred financial advisors and integrate your tax and financial planning to unlock value. We can arrange an appointment in our offices.

Sacrifice Your SALARY TO SUPER

If your marginal tax rate is 19% or more, salary sacrifice can be an option to boost your superannuation and pay less tax. By putting pre-tax salary into super rather than having it taxed as normal income at your marginal rate you may save tax. This can be especially beneficial for employees nearing their retirement age.

Salary sacrifice into super or making your own deductible contributions are different mechanisms but a very similar concept.

Super - Yes, there is potentially MORE

There are more concepts that may be worth a discussion with a financial planner. Our aim here is to inform you of your options and this should not be taken as advice or a recommendation to undertake any of these options without specialised financial planning advice.

- You can make tax deductible super contributions on behalf of a non-working or low income earning partner.
- If you earn a low income, you may be eligible for a government co-contribution towards your super.
- You may be eligible for a first home owner or downsizer superannuation scheme.
- Catch up and non-concessional contributions or splitting with a spouse are good discussions for a financial advisor.

INVESTMENTS

Investing is best approached as a discipline and a way of life. Get rich quick schemes rarely come off. Earn more than you spend and put money aside to save and invest and you will likely come out ahead.

Ownership of INVESTMENTS

Review the ownership of your investments as part of a longer-term tax planning strategy for tax rates, tax concessions, risk management and long term succession of ownership. Any change of ownership needs to be carefully planned due to potential capital gains tax and stamp duty implications.

Investments may be owned personally, by a Partnership, Company, Discretionary Trust, Unit Trust or super fund with varying benefits of asset protection, risk management, ownership continuity, income distribution and tax implications.

If buying a new investment, speak with your accountant to assess the best entity to own the asset before you make an offer to purchase.

Realise CAPITAL LOSSES

Tax is normally payable on any capital gains. You may consider selling any non-performing investments you hold before 30 June to crystallise a capital loss and reduce or eliminate any potential capital gains tax liability. There are rules to reduce the tax benefit if you repurchase the same investments shortly after sale. Unused capital losses can be carried forward to offset future capital gains.

Defer Investment INCOME & CAPITAL GAINS

Consider your income position and whether you would like to realise a gain in FY24 or FY25. Let us know of any such issues when we are talking to you in your year-end tax planning.

A capital gain will be eligible for the 50% CGT general discount to the gross gain if the asset has been held for at least 12 months before sale.

NOTE: The Contract Date is generally the key date for working out when a sale occurred, not the Settlement Date!

Crypto currency and NFT transactions are usually taxable income.

INVESTMENT PROPERTIES

Negative GEARING

When your property income is less than your property expenses your investment is running at a loss. Include the interest on an investment loan and we call this negative gearing. Your net loss is a deduction against your income and so you pay less tax – not 100% of your loss, but the value of your loss at your marginal tax rate (usually 39% or 47% for property owners).

Over the last year interest rates and rental income have both increased markedly. Remember to keep your private and investment loans separate from each other. When they get mixed, or “tainted”, it is not possible to undo.

Your pay off from negative gearing is driven by your property going up in value (hopefully) - and/or you paying down your loan so you own more of the property and you end up earning more revenue than expenses.

Depreciation REPORTS

If you have an investment property, a Property Depreciation Report (prepared by a Quantity Surveyor such as BMT, Deppro or Asset Reports) allows you to claim depreciation and capital works deductions on capital items within the property and on the property itself.

The cost of this report is generally recouped several times over by tax savings in the first year of property ownership.

DOCUMENTATION

A good property agent will provide a helpful summary of your income and expenses simplifying your year end tax compliance.

Prepay Investment LOAN

You can prepay up to 12 months of interest on your investment loan to bring forward your tax deduction. Just make sure it doesn’t leave you short of cash for day to day management.

A Final Word on ALL Investment Activity BE CAREFUL...

If it sounds too good to be true, it generally is. Sometimes you need to take a risk to get ahead and to achieve your long term goals, but always do so with a plan.

LOOK AFTER YOURSELF AND OTHERS

Insurance Premiums AN INVESTMENT IN YOUR FINANCIAL SECURITY

Possibly your greatest financial asset is your ability to earn an income. Income Protection Insurance generally replaces up to 75% of your salary if you are unable to work due to accident or illness. Premiums are usually tax deductible and protect your family's lifestyle if you cannot work. It's a small price to pay for peace of mind. Like rental property interest, income protection premiums can also be pre-paid for 12 months to bring forward your deductions.

Private HEALTH INSURANCE

If you earn over $90,000 (individual or $180,000 for families), then unless you have private health insurance you may have to pay the Medicare Levy Surcharge of 1% to 1.5%. You can avoid this cost by taking out eligible private health insurance. You may also be eligible for a rebate on your policy. This website provides helpful information.

Wills and POWER OF ATTORNEY

Illness and death will come to all of us one day. Put some time aside to think about what this would mean for you.

Support a Good Cause DONATE

Make a tax deductible donation to a good cause. You will feel better for it, our community will be better for it and the ATO will chip in with a healthier refund when we prepare your tax return.

Loans DEBTS & INTEREST RATES

Debt is not inherently good nor bad. Debt can help you buy a house, a new car, fund your business or an investment opportunity. Debt can also fund purchases you don't need on a credit card you can't afford.

» Aim to reduce non-deductible debt. Start with high interest debt such as credit cards before moving on to paying down low interest debt such as your home loan.

» Do not mix your private debt with investment debt.

» Review your interest rates. If they are too high, look for a better rate.

» Keep your debt manageable against your income, and as this year's increase in interest rates has shown us, life does not always work as we expected so don't overextend.

» If you can't pay off your credit card during an interest free period, think twice about using it.

» Alternative lenders such as Afterpay and Prospa make money from your expenditure, so think twice and read the fine print (which can be full of unpleasant surprises).

And finally - BE CAREFUL

If it sounds too good to be true, it generally is. Sometimes you need to take a risk to get ahead and to achieve your long term goals, but always do so with a plan.

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