2017 Individuals Tax Planning Guide

The biggest super and tax changes in the last 10 years will affect you in 2017 and 2018.

Now's the time to review what strategies you can use to minimise your tax before 30 June 2017.

Imagine what you could do with tax saved?

- **Reduce your home loan**
- **Top up your super**
- **Have a holiday**
- **Deposit for an Investment Property**
- **Upgrade your Car**

Key Superannuation Changes

While you might not be flush with cash now and able to put large amounts into superannuation, it's important that you are aware of what is possible to maximise your super balance and possibly reduce your tax at the same time.

1 LOWERING OF CONCESSIONAL CONTRIBUTION CAP TO $25,000 FROM 1 JULY 2017

The tax deductible super contribution limit (or "cap") decreases to $25,000 per year from $30,000 per year for up to age 49 or $35,000 per year for age 50 to 75, after passing a work test if over age 65.

Consider making the maximum tax deductible super contribution this year before 30 June 2017.

Individuals **may** be able to make tax-deductible personal contributions to superannuation to reduce their taxable income. The advantage of this strategy is that superannuation contributions are taxed at between 15% to 30% compared to typical personal income tax rates of between 34.5% and 49%.

Please contact us to verify that you can comply with all the eligibility criteria for this deduction. This includes satisfying the 10% test, meaning that less than 10% of the total of your income for the year must be in respect of your employment. For the purposes of this test, income is assessable income plus reportable fringe benefits plus reportable employer superannuation contributions.

2 LOWERING OF NON-CONCESSIONAL CONTRIBUTION CAP TO $100,000 FROM 1 JULY 2017

The non-tax deductible super contribution cap decreases from $180,000 to $100,000 per year. The cap will be reduced further to nil for a year if your total super balance is above $1.6 million at the end of the previous financial year.

3 LAST CHANCE FOR $540,000 NON-CONCESSIONAL CONTRIBUTIONS

The bring forward rule, which allows individuals to bring forward two future years of non-concessional contributions (NCC) will be retained for those under age 65.

Individuals who are under age 65 at any time in the 2016/17 year and have not already reduced their NCC capacity through earlier contributions, may contribute up to $540,000 (3 years x $180,00 a year) before 1 July 2017.

From 1 July 2017, this will be reduced to a $300,000 **potential** non-concessional contribution into super (3 years x $100,000 a year), depending on their total super balance.

4 LIMITED OR NIL NCC CAPACITY AFTER 65TH BIRTHDAY

Individuals who reach their 65th birthday in 2016/17 will be unable to trigger the bring forward rule in 2017/18, so they will be restricted to a maximum of $100,000 of NCC's each year. They will need to meet the work test (employed for at least 40 hours in 30 consecutive days in the income year) to make any level of NCC.

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12 ways to reduce your tax

1 EXPIRY OF THE 2% TEMPORARY BUDGET REPAIR LEVY

The 2% levy for income earners over $180,000 is due to expire on 30 June 2017. If you are a high-income earner and can defer any income until after 30 June 2017, then you could save 2% tax.

2 OWNERSHIP OF INVESTMENTS

A longer term tax planning strategy can be reviewing the ownership of your investments. Any change of ownership needs to be carefully planned due to capital gains tax and stamp duty implications. Please seek advice from your Accountant prior to making any changes.

Investments may be owned by a Family Trust, which has the key advantage of providing flexibility in distributing income on an annual basis and an ability for up to $416 per year to be distributed to children or grandchildren tax-free.

3 PROPERTY DEPRECIATIONS REPORT

If you have an investment property, a Property Depreciation Report (prepared by a Quantity Surveyor) will allow 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 the tax savings in the first year of property ownership.

4 MOTOR VEHICLE LOG BOOK

Ensure that you have kept an accurate and complete Motor Vehicle Log Book for at least a 12-week period. The start date for the 12-week period must be on or before 30 June 2017. You should make a record of your odometer reading as at 30 June 2017, and keep all receipts/invoices for your motor vehicle expenses. Once prepared, a log book can generally be used for a 5-year period.

An alternative (with no log book needed) is to simply claim up to 5,000 business kilometres (based on a reasonable estimate) using the cents per km method.

5 LOWERING OF THE ADDITIONAL SUPER CONTRIBUTIONS TAX THRESHOLD FOR HIGH INCOME EARNERS FROM 1 JULY 2017

Individuals earning over $300,000 adjusted taxable income will continue to pay up to 15% additional tax on concessional contributions (up to 30% tax in total). From 1 July 2017, the income threshold for additional tax will reduce to $250,000. Higher income earners should consider making larger super contributions before 1 July 2017 if possible.

6 TRANSITION TO RETIREMENT (TTR) PENSION EARNINGS WILL NO LONGER BE TAX EXEMPT FROM 1 JULY 2017

Earnings inside a TTR pension will no longer receive a tax exemption and will be taxed in the same way as accumulation phase assets at 15%. If you are currently using this strategy, you may need to review it to ensure it is still beneficial for you.

7 $1.6 MILLION BALANCE TRANSFER CAP ON TRANSFERS TO PENSION PHASE FROM 1 JULY 2017

From 1 July 2017, a $1.6 million cap will be placed on pension accounts. This cap applies to each member, not to a super fund in total. Amounts above $1.6 million per member will need to be kept in accumulation phase. Earnings on the accumulation account will be taxed at 15%. Talk with us about whether it’s better to start pension phase now or wait until later.

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5 SACRIFICE YOUR SALARY TO SUPER

If your marginal tax rate is 19% or more, salary sacrifice can be a great way 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.

6 PREPAY EXPENSES AND INTEREST

Expenses relating to investment activities can be prepaid before 30 June 2017. You can prepay up to 12 months of interest before 30 June on a loan for a property or share investment and claim a tax deduction this financial year. Also, other expenses in relation to your investments can be prepaid before 30 June, including rental property repairs, memberships, subscriptions, and journals.

7 INSURANCE PREMIUMS

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 sickness or an accident. The insurance premium is normally tax deductible, plus you get the benefit of protecting your family's lifestyle if you cannot work due to sickness or an accident. It's a small price to pay for peace of mind. Similar to rental property interest, income protection premiums can also be pre-paid for 12 months to increase your deductions.

8 WORK RELATED EXPENSES

Don't forget to keep any receipts for work-related expenses such as uniforms, training courses and learning materials, as these may be tax-deductible.

9 REALISE CAPITAL LOSSES

Tax is normally payable on any capital gains. You should consider selling any non-performing investments you hold before 30 June to crystallise a capital loss and reduce or even eliminate any potential capital gains tax liability. Unused capital losses can be carried forward to offset future capital gains.

10 DEFER INVESTMENT INCOME & CAPITAL GAINS

If practical, arrange for the receipt of Investment Income (e.g. interest on term deposits) and the Contract Date for the sale of Capital Gains assets, to occur AFTER 30 June 2017.

The Contract Date (not the Settlement Date) is generally the key date for working out when a sale or purchase occurred.

11 QUALIFY FOR A GOVERNMENT CO-CONTRIBUTION

Super co-contribution aims to help eligible people boost their retirement savings. If you're a low or middle-income earner and make personal (after tax) contributions to your super, the Government also makes a contribution (called a co-contribution) up to the maximum amount of $500.

If your total income is less than $51,021 you may be eligible for a super co-contribution from the Federal Government. For each dollar in personal after-tax super contributions, the Government will contribute from 50 cents up to a maximum of $500 for those earning $36,021 or less.

For the purposes of this test, total income is assessable income plus reportable fringe benefits plus reportable employer superannuation contributions, less allowable business deductions.

Please contact us to verify that you can meet all the eligibility criteria for the Government Co-Contribution.

12 IS AN SMSF SUITABLE FOR YOU?

Now is a good time to seek specific advice in relation to this question, as it may be appropriate to establish an SMSF in conjunction with other tax planning opportunities, to maximise the benefit of the SMSF in your circumstances.

Talk to us TODAY before the 30 June 2017 deadline for assistance to reduce your tax!

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