The Women's Investment Club
MENTORING FOR EASY INVESTING

The Budget and Taxing Times

An interesting discussion was conducted by The Women's Investment Club in Melbourne in June where ***Doreen Cauchi,*** from H&R Block tax accountants answered many questions from attendees about tax. **While often considered a boring topic, there was lively debate and many issues were raised, including the complexity of our tax system.**

Topics discussed centred on superannuation - especially contributions, tax effective investments, the first home savers account and private health insurance.

Doreen referred to the summary H&R Block prepared on the Budget (see Tax section of The Women's Investment Club website).

Superannuation

1. Contributions

The recent May Federal Budget clarified the higher concessional superannuation contribution caps for people aged 50 and over with balances of less than $500,000. Effective from 1 July 2012, eligible Australians over 50 will be able to contribute $25,000 more per year than other workers. This will help many women who have had to defer their superannuation contributions, often for family reasons and therefore have low superannuation accounts. On the other hand, if your super balance is approaching this level, you could consider splitting contributions with a spouse/partner to ensure that your account remains below $500,000.

The difference between concessional and non-concessional contributions to superannuation was discussed. **Concessional contributions** are before tax and if you are an employee, concessional contributions include the superannuation guarantee contributions an employer makes on your behalf and any pre tax earnings that you choose to salary sacrifice into your fund. If you are under 50, these must be less than $25,000 per year or you will incur a penalty. All concessional contributions are taxed at 15%.

Non-concessional contributions are after tax and people under 65 can make additional contributions of up to $450,000 over a three year period. These non-concessional contributions are not taxed when they enter your superannuation.

2. *Co-contribution*

Under the superannuation co-contribution scheme, the government provides a matching contribution for contributions you make to super out of after tax income. The matching contribution is up to $1,000 for people with incomes of up to $31,920 in 2010/11, with the amount phasing down for incomes up to $61,920. You can still make a contribution before June 30 to get co-contribution – see link under the "Super" box to check your eligibility. (Must be received and cleared by the Superannuation Fund by 30 June.)

3. *Self employment*

If you are self employed, concessional contributions are the amount of pre tax earnings you divert to your fund each year. You may be able to claim a deduction for personal contributions even if you receive some income as an employee, however, you must satisfy the "maximum earnings as an employee" condition. Under this condition, less than 10% of the total of the following must be in respect of your employment activities:

- your assessable income for the income year
- your reportable fringe benefits for the income year
- the total of your reportable employer super contributions for the income year.

If you wish to claim a tax deduction for your personal super contributions, you need to write to your super fund in the approved form "Notice of Intent to claim a deduction for personal super contributions".

The amount you contribute and claim as a deduction will count towards your excess contribution caps. More details are on the tax office website: http://www.ato.gov.au/content/00120268.htm

Investments – consider the investment before the tax …

There are three ways of looking at tax –

1. Tax minimisation – this is when your tax complies with the law to reduce the amount of tax you pay. Everyone has the right to do this and it is in your interests not to pay more tax than you should.
2. Tax avoidance – this often depends on an artificial or contrived arrangement designed to avoid or defer your tax obligations.
3. Tax evasion – this is when you have not paid your required tax and is illegal.

While it is important to ensure your investments are tax effective, it should not be your first consideration. The most important matter to consider is whether the investment itself is likely to perform. Some investors have been caught up in failed managed investment schemes like Great Southern Plantations and Timbercorp. This is known as tax avoidance and the Tax Office has published an informative booklet "Understanding Tax Effective Investments" – see link under the Taxation box.

Established tax effective investments include investing in a family home which is free from capital gains tax, buying shares that pay fully franked dividends and making personal contributions to superannuation.

"Geared" investments involve borrowing. Investors can claim deductions for expenses including the interest on borrowings. However, borrowing may tempt you to over extend financially and can cause problems if other income declines.

With capital gains tax payable on profits made from selling shares, investors could consider reducing this by taking selling some poorly performing shares at a loss before the end of the financial year.

First home savers account - Tax benefits

First home saver accounts offer a tax-effective way of saving for your first home through a combination of government contributions and low taxes. If you open a first home saver account, the Government will add money to your account and tax your earnings at a low 15% to help you save for your first home.

It is a special purpose account that is more like a term deposit than a normal, everyday account because you have to keep the money there for a minimum period of time. Once that time has passed and you make the decision to buy or build your first home, you have to withdraw all the money at once and close the account. You need to use the money you save as a deposit or to meet other costs you incur in buying or building your first home. More information is on the attached link:

http://www.ato.gov.au/individuals/pathway.aspx?pc=001/002/066

Private health insurance – penalties for late entrance

If you delay taking out private health insurance it can cost you considerably more.

Under the Federal Government's Lifetime Health Cover rules, if you do not have hospital cover on the 1st of July following your 31st birthday and then decide to take out hospital cover later in life, you will pay a 2% loading on top of your premium for every year you are aged over 30.

For example, if you take out hospital cover at age 40 you will pay 20% more than someone who first took out hospital cover at age 30. The maximum loading is 70%.

Also, if your taxable income exceeds the Medicare Levy Surcharge Thresholds of $77,000 for singles and $154,000 for couples/families, you will be charged an extra 1% tax on all your taxable income. This will apply to all the combined income even if one partner has Health Cover.
