

# Celebrate the new year

Alex Tilbury

AS pay packets increase, albeit by a small amount from July 1, analysts recommend consumers use the extra dollars wisely and not squander them.

Treasurer Peter Costello is set to deliver tax cuts as planned after July 1 once the Government gains control of the Senate.

Tax cuts range from \$6 a week for average earners to \$86 for those on \$125,000 or more a year.

AMP financial planner Tony Rigby suggests putting the \$6 a week tax cut to good use instead of spending it on scratchies or a hamburger and a milkshake.

"It is something you did not have before, so it wasn't in your budget so why fritter it away?" he says.

"If you want to start good sensible habits from July 1, take these tax cuts and don't waste it. You can apply it to your mortgage or super. You can make significant saving, so put it to good use."

#### Pay off the mortgage

If someone had an average-sized mortgage of \$150,000, at 7 per cent over 30 years, the current payment would be \$997 a month.

Mr Rigby says if consumers put the additional \$6 a week off the home loan, it reduces the term by 28 weeks.

#### Super co-contribution

If you earn under \$28,000 a year, an additional \$6 a week or \$312 a year added to your super as an after-tax contribution, you'll pick up a \$468 co-contribution from the Federal Government.

"That is a 150 per cent return on your money. It's good odds and definitely beats the scratchies," Mr Rigby says.

Employees earning less than \$58,000 should consider making an after-tax contribution of up to \$1000 into their super fund but you have until tomorrow to qualify for up to 150 per cent of the contribution.

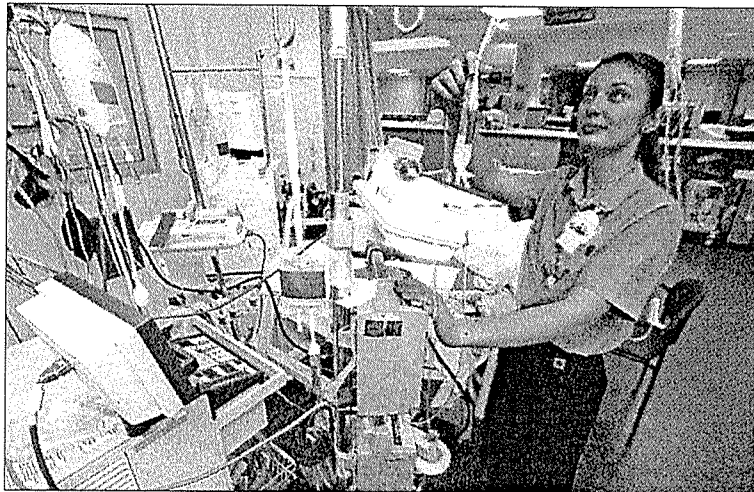
After-tax contributions don't get taxed on entry or withdrawal.

#### Put it in the bank

Colonial First State Investment technical analyst Deborah Wixted worked out that if you banked the extra \$6 a week in a savings account earning 5.5 per cent, like many of the high-yielding online accounts, someone would have saved \$17,710 after 20 years.

#### Salary sacrifice

Salary sacrificing into superannuation remains one of the most effective and legitimate ways to



INSURANCE . . . only 43 per cent of Australians have private health cover.

## Get private health cover

ALL taxpayers pay a 1.5 per cent Medicare levy.

But if you're single and earning more than \$50,000 or a family earning more than a combined income of more than \$100,000 and you do not have private hospital cover you have to pay an extra 1 per cent Medicare levy surcharge.

In 2003, 210,742 taxpayers paid the Medicare levy surcharge, costing them \$128 million or \$608 on average per person.

On average males paid \$650, while females paid \$529. As at February 2005, the average full time earnings were \$1022 a week or \$53,144 a year and only 43 per cent of Australians had private health cover.

Roger McBride, marketing manager from iSelect.com.au, a leading private health insurance broker, says going without private health insurance is bad for the hip pocket.

"We find that in the vast majority of cases people actually save money by taking out eligible private health insurance. Many people will be in for a rude surprise when they do their tax this year," Mr McBride says.

"\$50,000 is not considered a high income for many and the Government has not indexed this for inflation since introducing the surcharge some eight years ago. In many cases people's income which may have been \$45,000 last year may have tipped over the \$50,000 threshold or they may have had a partner return to the workforce and increased their combined income.

"These people will be caught out this financial year at tax time."

To ensure you're not hit by this tax next year you should take out cover. Remember to shop around for good value.

— Alex Tilbury

manage tax. It involves an employer making contributions into a person's super from their pre-tax salary.

Amounts salary sacrificed into super are taxed on entry at 15 per cent but if the salary was taken as income it would be taxed at the relevant marginal tax rate, which can be as high as 48.5 per cent.

Colonial First State Investments crunched the numbers for Money&You and worked out that a person earning \$40,000 could be more than \$40,000 better off when it comes time to retirement if they put the extra \$6 a week into super, as an after-tax contribution.

A person on \$40,000 would be likely to retire with \$257,456 in super after 20 years but the nest egg would rise to \$297,737 if an after-tax contribution of \$26 per month was added, on top of the Government's co-contribution.

A person earning \$60,000 a year — while not eligible for the co-contribution — would be \$24,644 better off in retirement if their tax cuts were added to super.

A person on \$60,000 a year would receive \$354,846 in super after 20 years with just the normal 9 per cent employer contribution, but a pool of \$379,490 would be saved if an extra \$37.96 a month (or \$8.76 a week/pre-tax) was salary sacrificed into super.

ING manager technical services Andrew Lowe says high-income earners who invest their upcoming tax cut in super via a salary sacrifice could amass more than

\$275,000 over 20 years without any reduction in net income.

A taxpayer on \$95,000 will enjoy a tax saving of about \$2162 in the 2005-06 year and a further \$840 in the 2006-07 year, a total tax saving of \$3002.

A taxpayer earning \$125,000 or more in taxable income will take home an extra \$2162 in 2005-06 and a further \$2340 in the 2006-07 year, a total tax saving of \$4502.

The superannuation surcharge will also be abolished from Friday.

#### Spouse contributions

People should consider making a contribution into their spouse's super, especially if their spouse earns less than \$10,800 a year.

AMP's Mr Rigby says one benefit of spouse contributions is that, under certain circumstances, the contributor can qualify for an 18 per cent tax rebate on the amount contributed, up to a maximum of \$540.

He says the \$6-a-week tax cut added to a low-income spouse's super will give the contributor a rebate of \$56.18.

Both the contributor and their spouse will only pay 15 per cent tax on the investment returns of their funds compared to non-super investments that are taxed at marginal tax rates, which can be much higher.

#### Prepaid expenses

This may be one for next financial year but where possible, people should look at bringing forward any deductible expenses.

A maximum of 13 months ex-

## Cover story

penses can be prepaid and claimed as a deduction this financial year.

McCullough Robertson Lawyers business partner Matthew Burgess says tax minimisation means legitimately working within the boundaries of the law, unlike evasion which spells jail.

"Trusts and super attract a lot of media attention but may not be quite as useful as people might think. For people who get a wage each week, it is often more useful to address personal income tax planning," he says.

"At this time of year you see a lot of people promoting agricultural investments in trees or grapes or ostriches. These investments are popular because they can offer significant tax planning opportunities for people who are focused on reducing their taxable income.

"For a lot of people on a fixed income, that sort of investment strategy, or getting deductions in your own name, can help address immediate tax problems in the short term but ideally you need to plan longer term as well.

"Start as early as you can and don't say 'tomorrow's June 30 so I cannot start now', because you should start planning for the following year as soon as possible.

"I lose count of the number of clients after speaking to them in the last week in June who say 'I'll see you nice and early next year' and then it is like *deja vu*, you are back talking to them the next June.

"It is often too late if you are looking at tax planning even in May, you cannot make serious inroads."

#### Insurance

People should have their life insurance and total and permanent disability cover in their super because the premiums are tax deductible, and that reduces the after-tax cost of the cover.

"A lot of people do have insurance with their superannuation but this might be no more than \$100,000 and if you are incapacitated for the rest of your life, \$100,000 doesn't go very far. Even \$1 million does not go that far if you look at it really critically for a lot of people," says Mr Burgess.

"It is Murphy's Law though, if you have \$1 million or even \$2 million in life cover then you're going to be here when you're 80 and think that was money wasted in premiums.

"But you have to remember there are people who die way too young and don't have any significant cover. As well as the devastating emotional impact there are very serious financial consequences for their families."

#### Nearing retirement

For people approaching retirement, now is a good time to work out when is the financially best time for them to do so.

For some, it may not pay to retire in June as some of their retirement benefits could be added to their taxable income, potentially pushing them into a higher tax bracket.

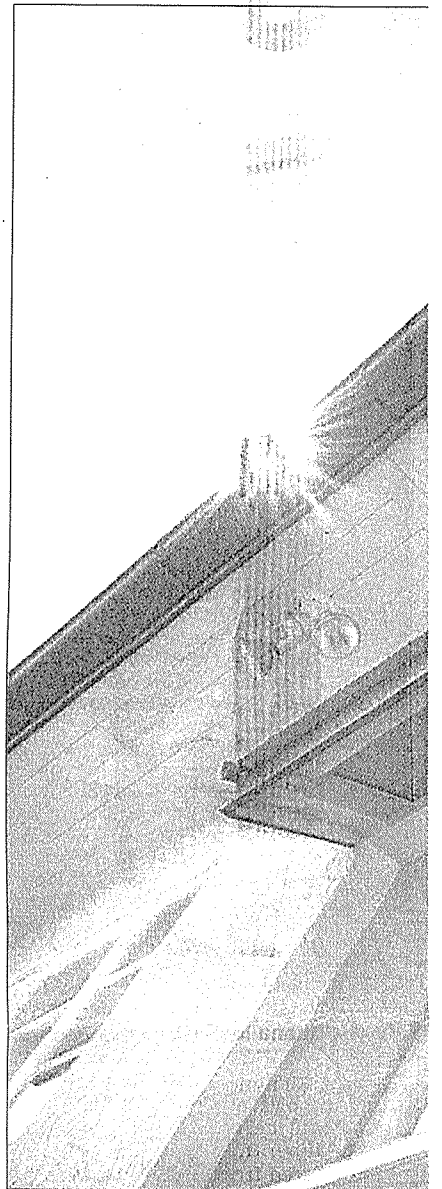
#### For parents

Timing when to have a baby is almost impossible, but it can have some positive tax consequences.

New mums may be able to save on their tax bill by taking maternity leave from the end of December, rather than taking leave from July 1.

#### Income splitting

Income splitting is one of the easiest and most effective ways for



'LEGITIMATE' claims that you would not

## Professional

THE vast majority of Queensland property investors are still unaware about the expert services available to them when buying an investment property, according to Paul Bannion.

Mr Bannion, managing director of DEPro quantity surveyors, says landlords can benefit to the tune of 60 per cent of the total purchase price of the property through using a professional depreciation schedule.

"Investors fail to understand that the tax benefits from

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couples to pay less tax on their investments.

In this strategy, investments are either held evenly, or put in the name of the spouse (husband, wife or de facto) who earns the least.

This can put a dent on a person's tax bill as income and capital gains on the investments are taxed at the spouse's lower marginal tax rate.

#### Borrowing money to invest

Borrowing to invest, commonly referred to as "gearing", can also help reduce a person's tax bill as people can claim the interest as a tax deduction.

Gearing can be risky, though, so it is always a good idea to get advice.

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## PHONE-IN

Readers are invited to telephone *The Courier Mail* on the evening of July 25 and discuss their specific tax issues with a panel of chartered accountants.

There will be more information in coming weeks on the inaugural Institute of Chartered Accountants — *The Courier Mail* Tax Phone-In.

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