

Tax tips for year ended 30 June 2011

These year end tax tips are designed to provide employees, investors and businesses with a headline list of key issues that they should consider in preparing their income tax returns for the year ended 30 June 2011. The list is not exhaustive and you should not act solely on the information in these tips. Please contact our office for information relevant to your specific circumstances.

Employees and investors

1. Defer income, and accelerate deductions

In present value terms \$1,000 today is worth more than \$1,000 in 12 months time. So as is the case every year, you should be considering bringing forward deductible expenditure prior to the end of the financial year to minimise your taxable income. This may apply to prepaid service agreements such as gardening and maintenance contracts where they apply to, say, a rental property, or even prepaying interest on a loan used to purchase an income producing asset such as a rental property or dividend bearing share portfolio.

Alternatively, consider if you have any opportunities to defer the point of derivation of income, for example possible capital gains until next financial year.

Both of these initiatives are standard but very effective year end tax planning tools. But watch out for the repayment rules.

2. Claim all work related deductions

Making sure you have claimed all your work-related deduction entitlements is crucial in saving tax. In doing so check whether you have all your necessary receipts or whether your expenses have been billed to a credit or debit card. Typical work-related expenses which are allowable include uniforms, telephone costs, subscriptions, home office expenses and union fees.

Where you don't have the necessary receipts on hand you can still claim up to \$300 or work-related expenses provided the claims relate to outgoings you necessarily incurred in doing your job. A deduction for laundry costs is allowable where the relevant clothing is protective clothing, a compulsory uniform, a non-compulsory uniform or certain occupation-specific clothing. Moreover, laundry claims of up to \$150 do not have to be substantiated even if your total income tax deductions exceed \$300.

3. Identify eligible self-education expenses

Self-education expenses can be claimed provided the study is directly related to either maintaining or improving your current occupational skills or it is likely to increase your income from your current employment. By contrast if the study is designed to enable you to obtain new qualifications in a different field then the expenses incurred are not allowable. Typical self-education expenses include, amongst others, course fees, textbooks, stationary, study union fees and the depreciation of assets such as computers

and printers. However, any Higher Education Loan Program (HELP) repayments are not deductible. You must also disallow \$250 of self-education expenses which can include non-deductible amounts such as child care costs.

4. Maximise motor vehicle deductions

Where you have used your motor vehicle for work-related travel, and your claim for kilometres travelled for the year does not exceed 5,000 kilometres, you can claim a deduction for your car expenses on a cents per kilometre basis to the extent you have used your car for work. The allowable rate for such claims changes annually so you may need to obtain this year's rate from the Australian Taxation Office (ATO) website at www.ato.gov.au. Any such work-related travel claims must be based on reasonable estimates. Conversely, where business travel exceeds 5,000 km, it may be possible to claim one-third of actual car expenses of 12 per cent of the original value of the vehicle without a log book.

Alternatively, if you have used your car for a significant amount of work related travel then you may be able to claim a deduction for your total car running expenses to the extent you have used it for work. However, such claims are only available where you have the required log book, odometer readings and receipts.

5. Deduct any eligible depreciation deductions

Where an individual bears the cost of acquiring specific tools or equipment then they may be depreciable under the capital allowances regime. Some items can also be claimed in full if they cost \$300 or less or will last less than three years, and are mainly used to gain assessable income other than business income. Such assets include tools, calculators, briefcases, computer equipment and technical books purchased by an employee, or minor items of plant purchased by a landlord.

6. List your rental property deductions

Landlords can claim deductions for a range of expenses such as advertising, bank charges, body corporate fees, cleaning, council rates, electricity and gas, gardening, insurance, loan interest, land tax, lease preparation expenses, legal costs, pest control, postage and stationary, property agent fees, telephone charges and water rates. You may also be able to write off the cost of certain buildings, depreciating assets and borrowing costs over time.

7. Claim relevant non-work related deductions

Fees paid to a registered tax agent to prepare your tax return or to manage your tax affairs are allowable in the year the fee is paid, as are ongoing management fees paid to a financial planner. Also, bank charges and any interest payments on funds used to acquire shares and other income producing investments are generally deductible. Donations to charities and other gift deductible recipients should also be claimed.

8. Optimise your tax offsets

Tax offsets directly reduce your tax payable and can add up to a sizeable amount, so it pays to know all the offsets you are entitled to. Eligibility for offsets will generally depend on your income level, family circumstances and other relevant conditions associated with

particular offset or rebates. Common tax offsets include the dependant spouse rebate, low-income tax offset, mature-aged worker rebate, senior Australian tax offset, medical expenses offset, private health insurance offset, the entrepreneur's tax offset and the offset for superannuation contributions made on behalf of a low income spouse.

An education tax offset is available for eligible families (those who have claimed Family Tax Benefit A) for 50% of the cost of items such as educational software, home computers and associated costs, home internet connections, laptop computers, printers, school texts, stationary and trade tools used in school. This year the maximum amount of the rebate is \$397 for each child in primary school and \$794 for each child in secondary school.

9. Consider tax effective superannuation contributions

A self-employed person will be able to claim their contributions to a complying superannuation fund as fully tax deductible up to the age of 75. However, such contributions will only be deductible if less than 10% of the total of a person's assessable income, reportable fringe benefits or reportable employer superannuation contributions is attributable to their employment as an employee. Employers can also claim deductions for superannuation contributions made on behalf of their employees provided the employee is under 75.

Any excess contributions made by the self-employed or by an employer in respect of an employee will be taxed in the superannuation fund at a rate of 46.5 per cent rather than 15 per cent. The excess contributions limit for the 2010/11 tax year is \$25,000 or \$50,000 for those aged 50 or more as at 30 June 2011.