2018/2019 End of Financial Year Strategy Ideas

With the end of the financial year fast approaching, there are several strategies you may wish to consider in order to reduce your taxable income. After all, paying less tax means more money is available to retire debt, increase investments, or improve your lifestyle.

General Advice Warning: The following strategy ideas are general advice and may not be appropriate for you as the strategies have not been tailored to your individual personal needs, goals, objectives and circumstances. We recommend that you seek professional advice from your financial adviser or tax agent prior to acting on this information.

Strategy 1 – Move assets in your own name to super

If you currently hold an investment in your own name, you may want to cash it out and use the money to make a personal after tax super contribution. By using this strategy, you could *reduce tax* on investment earnings and *increase your retirement savings.*

Please note:

- *Transferring ownership of investments may trigger a capital gains tax event.*
- *Please note, non-concessional super contributions are capped at $100,000 per person per annum or $300,000 over three years using the bring forward provisions.*
- *Please also note that the bring forward rule is not available to individuals with a total superannuation balance of $1,500,000 or more as at 30 June 2018.*

Strategy 2 – Make a post-tax (non-concessional) contribution to super if you turned 65 during the Financial Year

If you were 64 on 1 July 2018 and turned or are turning 65 during the 2018/2019 Financial Year, this will be the last chance for you to trigger the bring forward non-concessional contribution cap (i.e. up to $300,000).

Please note:

- *You must not have triggered the bring forward non-concessional cap in the past two financial years.*
- *Please also note that the bring forward rule is not available to individuals with a total superannuation balance of $1,500,000 or more as at 30 June 2018.*
- *The work test must be satisfied if you have already turned age 65 when making the contribution.*

Strategy 3 - Top-up your super with help from the Government

If you or your spouse earns less than $52,697[1] p.a. (of which at least 10% is from eligible employment or carrying on a business) and you meet certain other conditions, you may want to make a personal after-tax contribution of $1,000 to super before 30 June 2019. By using this strategy, you may qualify for a Government co-contribution of up to $500 to your superannuation fund.

[1] Includes assessable income plus reportable fringe benefits plus reportable employer super contributions (e.g. salary sacrifice).

Please note:

- *The Government co-contribution amount reduces by 3.333 cents for every dollar of income over $37,697.*
- *The initiative is available to individuals under 71 years of age. However, if age 65 or over, the work test rule must be met to be able to contribute.*

Strategy 4 – Make a superannuation contribution for your spouse and save tax

If your spouse earns a low income (up to $40,000), you may consider making a super contributions up to $3,000 on their behalf from your after-tax pay or savings. By using this strategy before 30 June 2019, you may receive a tax offset of up to $540 this financial year and increase your spouse's retirement savings.

Please note:

- *The current tax offset remains at 18%, up to $540 where income is below $37,000.*
- *The tax offset gradually reduces for income above $37,000 and completely phases out when income reaches $40,000.*

Strategy 5 – Make personal deductible super contributions

From 1 July 2017, anyone who is eligible to contribute to super can potentially claim a tax deduction for personal super contributions regardless of their employment arrangement. Before 1 July 2017, individuals could only claim a deduction for super contributions if their employment income was less than 10% of their total income from all sources.

Please note:

- *The concessional contribution cap is $25,000 for all individuals. The cap applies to concessional contributions from all sources including contributions made by your employer.*
- *A Notice of Intent to Claim a Tax Deduction must be made in line with each super fund's internal requirements before your tax return is lodged, or at the latest by the end of the financial year after the contribution was made.*
- *From 1 July 2018, you can start to carry forward the unused amount of your concessional contribution cap for up to five years. The first year in which you can access the unused concessional cap is the 2019/2020 year and your total super balance must be below $500,000 at 30 June of the previous year.*

Strategy 6 – Contribute to super and offset capital gains tax

If you make a capital gain on the sale of an asset this financial year, you may wish to consider making a personal deductible contribution into super before 30 June 2019. If eligible, this strategy may enable you to save on capital gains tax (CGT) this financial year and increase your retirement savings.

Please note:

- *As per Strategy 5*

Strategy 7 – Review Transition to Retirement Pension Strategies

From 1 July 2017, Transition to Retirement (TTR) Pensions no longer enjoy tax free earnings/growth and are be taxed at up to 15%, until reaching age 65. With the reduction to the concessional contribution cap to $25,000 which also applied from that date, some individuals may be better off unwinding the strategy.

Please note:

- *There are many variables which need to be considered when determining an appropriate course of action. It is a complex area, and if applicable in your situation, please seek advice from your Financial Adviser before taking any action.*

- *Once an individual reaches age 65, the TTR pension should be automatically converted to a retirement phase pension on an individual's 65th birthday by the provider (note: this may not be the case for an SMSF). Once converted investment earnings will be taxed at 0% and the pension balance on the day it becomes a retirement phase pension is counted towards an individual's transfer balance cap.*

Strategy 8 – Take extra payments as Lump Sum withdrawals from Income Streams if you are close to your Transfer Balance Cap.

From 1 July 2017, any lump sum withdrawals no longer count towards the minimum required pension payment.

Although the minimum pension cannot be met by lump sum withdrawals, the amount exceeding the minimum should be taken as lump sum withdrawals from a retirement phase pension. This is because a lump sum commutation from a pension creates a "debit" event in your transfer balance account and therefore reduces the balance in the account.

The reduction in your member transfer balance account could enable you to transfer additional accumulation benefits to the tax-free retirement pension phase or receive a higher amount of a deceased spouse's super death benefit as a death benefit income stream.

Strategy 9 – Purchase Life & TPD insurance tax effectively

If you take out Life and Total & Permanent Disability Insurance through a super fund (rather than a separate personal policy outside of super) you may be able to save on premiums and/or purchase more insurance cover (depending on the contribution method).

Please note that depending on your circumstances it may be appropriate to own Life & TPD policies personally. Please seek personal financial advice to confirm your position.

Strategy 10 – Delay withdrawing super benefits to save lump sum tax

If you're under age 60 and want to cash-out some of your super, you should consider deferring your withdrawal until you turn age 60. By using this strategy, you could save lump sum tax[2] and maximise your retirement savings.

Strategy 11 – Use capital losses to reduce capital gains tax

You may want to consider selling poor performing assets that no longer suit your circumstances before 30 June 2019. By using this strategy, you could free up money for appropriate investment opportunities and use the capital loss to reduce CGT[3].

Strategy 12 - Defer asset sales to manage capital gains tax.

If you need to sell a profitable asset, you may want to consider delaying the sale until after 30 June 2019. By implementing this strategy, you can defer paying CGT. If you hold the investment for over 12 months, you may also reduce your CGT liability.

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[2] Assumes the benefit is paid from a taxed super fund (and satisfy a condition of release). Untaxed super funds such as the CSS & PSS defined benefit funds are taxed under a different regime.

[3] Capital losses can only be offset against capital gains. If you don't make a capital gain in a particular financial year, the capital loss may be carried forward to future years.

Strategy 13 – Pre-pay investment expenses

Borrowing to invest (gearing) can help you achieve your long-term lifestyle and financial goals. However, if you've already commenced a gearing strategy (or you are about to set one up), then prepaying the interest bill for up to 12 months before 30 June 2019 may enable you to bring forward your tax deduction and reduce your taxable income this financial year.

Similarly, you could consider pre-paying other investment expenses in advance. For example, financial planning fees, accounting fees, property management fees, insurances relating to investment properties (building and tenants cover) etc.

Strategy 14 – Take up Private Health Insurance

Did you know that singles earning more than $90,000[1] or couples/families with a combined income over $180,000[1], for 2018/2019 and without health insurance, could pay an extra 1.0% - 1.5% tax via the Medicare levy surcharge? Whilst it is too late to avoid the Medicare levy surcharge for this financial year, by taking up private health insurance now, the levy can be avoided in 2019/2020.

Furthermore, people without health insurance before 1 July following their 31st birthday, could pay an extra 2% on top of the premium when they do join for every year after the age of 30 years they're without cover.

Strategy 15 – Gifting for Pensioners

For clients who have intentions to help their family, the end of financial year sees the re-setting of the annual $10,000 gifting threshold before a deprived asset is created (for aged pension calculation purposes). This gives the opportunity for gifting $20,000 in a short space of time (i.e. $10,000 prior to 30 June and $10,000 post 1 July).

Please note:

- *Gifting in this manner may increase eligibility to the Centrelink Aged Pension.*
- *The gifting rules are 'use it or lose it' so acting now may be beneficial.*

Strategy 16 – Downsizer Contribution

The downsizer contribution allows an individual aged 65 or over to use the proceeds in relation to the sale of only one of their main residences to make 'downsizer' contributions of up to $300,000 (or $600,000 for a couple) into super. To be eligible, the contract for sale, not the settlement date, must be entered into on, or after 1 July 2018.

Do you require more information?

For more information on how these strategies may be of benefit to your individual situation, please speak to your Financial Adviser.