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Did You Know?

Legislation introducing a means tested age pension was passed in 1908. The pension was payable to men from age 65 and women from age 60. The pension was the equivalent of \$1 per week, representing 21.6% of the average wage.

The life expectancy of a male at birth was 55 years, and a female, almost 59 years. However, for a male who survived to age 65, his life expectancy was a further 11.3 years. A female at age 65 had a life expectancy of 12.9 years.

Source: *Financial Demographics*.



Insights into Successful Investing Tax Effective Investing

Focus on the after-tax return, not on the tax

It makes sense to consider the tax implications of your investments. However, one of the easiest investment traps to fall into when investing is to concentrate on tax savings and forget the reason why you invested in the first place – to make more money.

What can go wrong?

Some tax schemes have felt the wrath of the tax office in the past. Over the years, a large number of investors have been burnt by rulings from the Australian Tax Office (ATO). Some investors have had tax deductions disallowed by the ATO while others have been fined for their part in illegal tax minimisation schemes. Either way, the results can be costly. It is worth discussing any tax effective investment with your financial planner or accountant before investing.

You can become so involved in saving tax that you forget about the reason you are investing – to make some money. If you hear yourself talking about tax savings before mentioning how your investment is performing, it is a warning sign. You might be focusing on the wrong goal. Try focusing on the after-tax return from your investment – not the tax you are saving.

All this doesn't mean you shouldn't take advantage of some sensible tax tips. In this article we examine a few to think about.

1. Hold on to your investment for more than a year.

If you're an individual (or investing through a trust) and you hold your investment for a year, you only pay capital gains tax (CGT) on 50% of your investment's gain. However, if you sell your investment within a year of your initial investment, you will pay CGT on 100% of the gain.



2. Invest through superannuation

If you invest through superannuation using before-tax money, you'll generally pay only a 15% contribution tax. This is likely to be much less than the marginal tax rate you are currently paying (which could be up to 48.5%). So it may make more sense to invest in super rather than other investments – because more of your money is put to work for you.

If you're self-employed, you may also be able to claim a tax deduction on your contributions (given certain conditions).

Once you are invested in super, your investment earnings are taxed at a maximum rate of 15%. In non-super investments, tax can siphon off up to 48.5% of your return.

Normally, when you take out life and/or total and permanent disability insurance, you're using after tax money. It's much cheaper to use pre-tax dollars by paying for insurance out of your pre-tax superannuation contributions (if your super fund allows it).

3. Pay interest on your investment loans in advance

The interest you pay on your investment loan, including a margin loan or the mortgage on your investment property, may be tax deductible. The interest on this loan can be pre-paid, allowing you to bring forward your tax deductions.

For example, pre-paying in June allows you to claim up to 12 months interest as a deduction in the current financial year.

4. Seek advice when you are considering retirement

Many people have paid too much tax in retirement because they did not seek advice from a financial planner or accountant. The rules governing the tax on your retirement savings are complicated so we strongly recommend you get financial advice, even if you haven't used a financial adviser before.

5. Invest in companies that offer franking credits

Some Australian shares offer franking

getting you from **a** to **b**

credits. This means that they pay tax on their profits before distributing to shareholders. As a result, you may be able to claim a franking tax credit for the amount already paid by the company.

Source: BT Financial Group – Abridged extract from “Ten Investing Truths”

Can a Contribution to Super be Made by People Who Are Not Working?

Because of the tax advantages available to people accumulating savings, or drawing a retirement income stream through the superannuation system, we are often asked if people who are not engaged in the workforce can get their non-super savings into the superannuation system.

The simple answer to the question is “yes”, provided the person wishing to make the contribution is under 65 years of age¹.

Such an option is often considered by people who are approaching retirement, or those seeking a more tax-advantaged environment, and currently have accumulated savings outside super. Perhaps they have just sold an investment property, a business, or other assets, or perhaps they have received an inheritance or a windfall but they have some capital they wish to invest for their retirement.

Back in 2004, the superannuation legislation was changed to allow anyone under the age of 65 to make contributions to super, even if they had never worked. The “work test” that previously applied to people under 65 was removed.

We recently heard of a couple in their late 50’s who had just received several millions of dollars after winning a lottery. They were keen to preserve the tax effectiveness of their investment earnings, and wanted to receive regular tax effective income payments, so an investment of a part of their windfall in super was a logical consideration. Of course you don’t need to win the lottery to take advantage of the tax effectiveness of super. You can generally make contributions with as little as a couple of hundred or a few thousand dollars.



So why contribute to super anyway?

As already mentioned, retirement income that is derived through the superannuation system is generally more favourably taxed than income received from outside superannuation.

Not only is a retirement income stream favourably taxed but for people who are still accumulating funds for their retirement, the tax applying to investment earnings inside super are taxed at a maximum rate of 15% as opposed to an individual’s marginal tax rate (which may be up to 48.5%) if invested outside super. Where a person is receiving an income stream through super, the investments earnings (including capital gains) earned by the super fund are actually taxed at 0%, thereby increasing the investment return to the investor.

Can I claim a tax deduction for personal contributions I make to super?

An individual may claim a tax deduction for personal contributions made to superannuation, where they are self-employed, substantially self-employed, or are an “unsupported person”.

An unsupported person is someone who does not receive, and does not expect to receive any superannuation support from an employer during a particular financial year.

Tax deductions are limited to an age based limit. The basis of the tax deduction is:

- 100% of the first \$5,000 contributed, plus;
- 75% of the contribution in excess of \$5,000.

For the 2005/06 financial year, the age based limits are:

Age	Maximum deduction	Contribution required to maximise deduction
Under 35	\$14,603	\$17,804
35 to 49	\$40,560	\$52,413
50 and over	\$100,587	\$132,449

Tax deductions for unsupported people may be extremely useful, particularly where income is derived from other sources such as investment earnings and capital gains.

Readers are encouraged to get advice from a financial planner or accountant before making contributions to superannuation with the view of claiming a tax deduction.

Source: Peter Kelly – Professional Investment Services

¹ For anyone aged between 65 and 74, they must satisfy a work test in order to be able to contribute. They need to be gainfully employed for at least 40 hours in not more than 30 consecutive days in the financial year in which they plan to contribute.

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- Retirement Planning
- Mortgage Elimination
- Shares and Property
- Fixed Interest and Cash
- Tax Planning
- Finance Services
- Home Mortgages
- Business Planning
- Risk Insurance
- Corporate Superannuation
- Corporate Services

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