IT'S THAT TIME | Experts suggest ways to get a return even when your investments are performing poorly

Bad times can create bigger tax benefits

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JUNE tax strategies are always important for investors, but rarely are there times such as now where they can create such big benefits.

Thanks to a sinking share market, an army of Australian investors is sitting on massive capital losses for the first time since 1987-88.

Those losses can be used to help wipe out a hefty tax bill on capital gains, such as investment property sales, but they are just one of many strategies to help people get a bigger refund or reduce their next tax bill.

William Buck Financial Services director Chris Kennedy said tax was a "crucial part of investing".

"Payment of tax at high levels can quickly erode capital, especially where investments are not providing strong positive returns," he said.

"Being effectively structured, including the use of superannuation, can minimise tax and give investors a return even when their investments are performing poorly."

We've asked the experts for tax tips that can be useful at the end of a financial year.

EMBRACE YOUR LOSSES

Bourke Shaw Financial Services principal Lawrence Orlando said selling assets that had dropped in value could be an ideal move before June 30.

"By selling a poor-performing asset, an investor may be able to use the capital loss to offset a capital gain from another asset in the same financial year," he said.

"Investors should be aware that capital losses can only be offset against capital gains. If an investor does not make a capital gain in a particular financial year, the capital losses may be carried forward for future financial years."

Ord Minnett financial planner Cameron Spears said share market investors should be careful about making "wash sales", where a share is sold and then immediately bought again simply to book a capital loss.

"You have to be careful about wash sales – the Tax Office is cracking down on them. Buying and selling on the same day is obviously a wash sale," he said.

Prescott Securities adviser Geoff Smith said investors should remember that when selling an investment, for tax purposes it was the date of contract – not the date they received the funds. "This can often be misunderstood at this time of the year," he said.

DEFER YOUR TAX

Mr Spears said basic tax deferral strategies could help when dealing with capital gains tax. "For anything with a gain, you can defer selling it to July," he said. "That way, you have another 12-18 months before you have to pay the tax."

Mr Orlando said there might be other opportunities to reduce capital gains tax liabilities by deferring an asset sale to a year when your income and marginal tax rate would be lower.

"For a taxpayer expecting to reduce their taxable income in the following year due to parental leave, the realised capital gains in the following financial year may reduce considerably," he said.

"Investors should also consider holding assets for more than 12 months to take advantage of the 50 per cent CGT discount. This means the CGT is only payable on 50 per cent of the gain if the asset has been held by the investor for more than a year."

BEWARE OF SCHEMES

Thousands of Australians have been burnt by managed investment schemes in recent months with two of the nation's biggest MIS providers, Timbercorp and Great Southern, collapsing.

These schemes typically offered large up-front tax deductions for investors in areas such as forestry or agriculture, and many people ignored the common rule of thumb to never invest in something simply for a tax deduction.

HLB Mann Judd Business Services partner Steven Toth said there were still managed investment products available offering tax deductions, but investors should exercise caution.

"Recent financial trouble for some providers reinforces the need to consider the underlying investment, and not just the available tax deductions," he said.

"People should certainly consider gaining advice from a licensed financial planner before taking the step to invest in these schemes."

Mr Smith said people should be wary of tax-driven investment schemes that surfaced this time every year and often over-promised. "June is a crucial window of opportunity for investors to make smart decisions," he said.

PREPAY INTEREST

Hillross financial planner Lee Virgin said while many assets had lost value in the past 18 months, people still had to pay interest on the loan if the assets were bought with borrowed funds.

"The good news is that it remains a tax-deductible expense where it has been properly incurred in producing assessable income for a taxpayer," he said.

"By pre-paying interest expenses, the tax deduction can be brought forward into the current financial year."

Mr Orlando said interest could be prepaid up to 12 months. "The additional tax deduction could help reduce the taxable income and may result in significant tax savings this financial year," he said.

PREPAY PREMIUMS

Hood Sweeney technical analyst Darren Searle said people could also prepay up to 12 months of income protection insurance premiums. "The amounts prepaid can be claimed as a tax deduction in the year they are paid – that is, the 2008-09 financial year," he said.

Mr Toth said apart from income-protection insurance premiums, prepayments also could be made for subscriptions to industry publications and work-related membership fees. "Consider buying work-related items costing less than $300, and replacing tools and uniforms all before the end of June," he said.

PROPERTY REPAIRS

Property investors can claim tax deductions for a wide range of expenses, including interest, agent fees, land tax, insurance, maintenance and repairs.

Repairs to an investment property could be part of tax planning and could be made before June 30, Mr Searle said.

"The repairs can be claimed as a tax deduction in the year they are paid – the 2008-09 financial year," he said.

INCOME-SPLITTING

Mr Virgin said income-splitting was one of the easiest and most effective ways for couples to pay less tax on their investment earnings.

"In this strategy, investments are either held evenly or put in the name of the spouse who earns the least," he said.

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

SUPER SWITCH

Investment losses in 2008-09 could make it an opportune time for people to transfer wealth into the low-tax superannuation environment, Mr Kennedy said.

"Investors who hold growth assets in their own name should consider what unrealised losses they are holding at the moment, and take advantage of the lower market prices to move assets from their name into the superannuation environment," he said. "Depending on what type of superannuation fund they have, assets such as shares could be transferred into super without the need to sell down and buy back."

SUPER DEDUCTION

Mr Searle said people who generated less than 10 per cent of their assessable income from employment – usually self-employed people or self-funded retirees – could consider making a personal concessional superannuation contribution.

These contributions were made from pre-tax dollars and this year's limits were $100,000 for people aged over 50 and $50,000 for others. "The concessional contribution made can be claimed as a tax deduction in your 2009 income tax return," he said.

BUSINESS BENEFITS

Adelaide financial strategist Theo Marinis said business owners should see their accountant before the end of June.

"This is so they can review where you should best allocate your money for your best advantage," he said.

"It might be you would benefit from paying extra into your superannuation or employing your life partner to do some extra work for you.

"If you need some investment in your business, such as replacing the ageing computer system or the vehicle, now might be a good time to take advantage of the Federal Government's stimulus package temporary 50 per cent increase in deductibility."

DON'T DELAY . . .

Mr Marinis said people who were in line for a tax refund should aim to lodge their return as early as possible in July.

"It's better to have the money in your pocket than in the Government's," he said.

One barrier to this strategy can be investments in managed funds, which often don't send out their tax statements until August or later.

. . . EXCEPT IF YOU PAY

"If you have to pay, lodge your return two days before the deadline and pay the tax two days before it is due to avoid the foul-up fairy causing you penalties," Mr Marinis said.

He said people should change their mindset about tax. "Paying tax is a privilege, it means you have earned a good income and you are contributing to this wonderful nation," he said.

"Feel good about doing your bit."