Unlock tax breaks

Finding ways to cut your contribution is an all-year task, writes **Anthony Keane**

TYPES OF TAX OFFSETS APPLICABLE TO SENIORS

Sometimes called rebates, tax offsets are not the same as deductions. Each dollar of tax offset reduces your tax payable by a dollar regardless of your taxable income.

Mature age workers, seniors and pensioners may be eligible for these offsets.

Mature aged worker tax offset: Aiming to encourage mature age workers who stay in the workforce, the maximum tax offset is $500.

It's for Australian residents who receive income from working and were born before July 1, 1957.

Seniors and pensioners tax offset: If you have reached the age pension age, the seniors and pensioners tax offset allows you to earn more money before you have to pay tax or the Medicare levy.

Eligibility relates to age, income and qualifying for other government allowances.

Low income offset: People on low incomes don't have to claim this offset – the ATO works it out when they lodge their tax return.

Medical expenses tax offset: You may be eligible to claim part of your net medical costs over the threshold. There is no upper limit to the amount you can claim. From July 2012 your income level affects eligibility and entitlements.

Source: ATO

TAX time has finished for another year, but anyone who wants a wealthier future should be looking at minimising their taxation costs all year round.

Savers, investors and retirees have access to many tax breaks on the personal finance front that can save thousands of dollars now, and much more once they retire.

Financial strategist Theo Marinis says when it comes to tax breaks, people are "often settling on a she'll be right mate" attitude and missing out on money-saving opportunities because they just don't know about them and fail to seek advice. "Ask questions," is his simple message.

Here are some samples of tax breaks people should be thinking about all the time, not just in the June rush.

SUPERANNUATION

Financial advisers say super is the king of all tax breaks, with just 15 per cent tax payable on income within your fund (compared with marginal tax rates outside super of up to 46.5 per cent) and the chance to save thousands of dollars a year through salary sacrifice.

Marinis says super is "not particularly sexy" for young savers, but its appeal increases dramatically the older we get.

"It is the biggest legal tax-free arrangement in Australia, the world probably, because when you get to pension age you don't have to pay any tax at all."

Salary sacrifice enables employees to pump some of their gross salary into super, paying tax of 15 per cent rather than their marginal tax rate.

It works best for people on higher incomes, but remember there are government limits on how much of this type of contribution you can put in each year before being stung by penalty taxes.

Self-employed people can cut their tax bill by making tax-deductible contributions into super every year.

ACCOUNT- BASED PENSIONS

AMP financial planner Mark Haynes says our super system offers generous tax breaks for retirees or anyone over age 60 that uses a transition to retirement strategy.

Retiring super fund members can choose to switch their super from accumulation phase into an account-based pension, which is still commonly known as an allocated pension.

"Investment earnings of any amount from pension income within a super fund are completely tax free," Haynes says. The catch with these pensions is there are aged-based minimum withdrawal limits, starting at 4 per cent of your account balance for age 55-64 and rising to 14 per cent for those aged over 95.

Goldsborough Financial Services director John Oliver says people have no obligation to switch from the accumulation phase – paying 15 per cent tax – to the tax-free pension phase, and some well-off retirees would rather pay the tax than draw down money they don't need.

"I would suggest people consider starting an account-based pension when retired rather than leaving it in super, but first consider your overall tax position," he says.

INSURANCE BONDS

More flexible than super but with not quite the bang for your buck, insurance bonds can be a handy tax break for higher income earners because they are tax-paid investments, where earning are taxed in the bond at 30 per cent and do not affect the investor's taxable income.

"Think of it as the most tax-effective product after super," says Ian Campbell, managing Director of KeyInvest.

"If you are on a higher tax rate than 30 per cent, there's a tax effectiveness."

Campbell says insurance bonds are good for education savings or leaving money to grandchildren outside of a will, but they are best used over a 10-year time frame so may be unsuitable for some.

SHARE DIVIDENDS

Dividends paid by Aussie companies are commonly fully franked, which means the company has already paid 30 per cent tax on its profit so the investor does not have to.

The franking credits that come with dividends deliver a bonus to super funds and retirees, who get a refund of any of the 30 per cent company tax paid in excess of their own tax rate.

SAVINGS ACCOUNTS

People saving up to buy a home can consider a First Home Saver Account, where interest is taxed at just 15 per cent. The Federal Government also makes a contribution of up to $1020 each year, but understand the rules before jumping in.

Another savings account strategy to cut tax is for couples to structure their accounts correctly, Goldsborough's Oliver says. "You should have the interested credited to the person who is paying the least amount of tax."

NEGATIVE GEARING

Controversial, dangerous, but also potentially powerful when asset prices are rising, negative gearing is when you claim a tax deduction for expenses such as interest paid that exceed income generated by an investment.

This means the investor relies on capital growth to make money, as they only get their tax rate back on the investment losses – not the full amount lost.

"It's a big tax break, but if you make a loss and get a tax deduction, it has still cost you," Oliver says.

REBATES FOR SENIORS

AMP's Haynes says as well as benefiting from a tax-free super income, a retiree also can earn other sources of income that have tax concessions.

"A retiree couple, depending on their age, can each earn up to almost $29,000 a year tax-free from other income sources such as employment, interest and rents thanks to the Senior Australians and Pensions Tax Offset rules," he says.

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