Harvest
Sow, nourish & harvest your wealth

2016 End of Financial Year Newsletter

May 2016

Be prepared for tax time!

The end of the financial year is coming, and so too is that one thing everybody dreads doing – their tax return. Even though your tax return isn't due until 31 October 2016, you may need to act now to implement some of the tax reduction and wealth building strategies outlined in this newsletter. Make sure to pay attention to the items that require action in early June to meet the 30 June 2016 deadline as they may involve giving your HR or payroll department enough notice to take action.

Income tax preparation

When reviewing and preparing your income tax position for the 2015/2016 financial year, we suggest you take into consideration the following three points:

1. Claim all deductible items

There are numerous expenses you can declare on your tax return that will reduce the amount of tax you pay. The most common tax deductions are work related expenses and charitable donations. Work related expenses are purchases made in the process of earning your assessable income. You can claim up to $500 of work related expenses without needing a receipt (unless a single expense exceeds $300), however, we advise that you keep proof of all purchases where possible.

2. Offset capital losses against your capital gains

You can also deduct any of your capital losses against your capital gains to reduce the amount of tax payable. For most people, a capital gain will occur when they sell shares or property. If, at sale, these assets are worth less than when they were purchased then you can reduce your capital gain for that financial year by the amount of the loss.

3. Review your investments

End of financial year is a good time to review how your investments are going and evaluate if they are performing to expectations, especially if you have recorded a capital loss in the current financial year. In some cases, it may be appropriate to sell off an under-performing asset and realise a capital loss to potentially reduce the amount of capital gains tax you pay. You can then use the money from that sale to invest in a new asset that is likely to grow in the future.

Tip: Electronic Tax Returns

When it comes time to lodge your tax return you may be able to do it online using the government's myTax or e-Tax software. To do this, you will need to:

- go onto the ATO website and create a myGov account.
- download the relevant tax program (if you are claiming a capital loss you will need to download e-Tax).
- link your myGov account to the ATO.

Personal income tax rates

The personal income tax rates which apply from 1 July 2016 are as follows:

Threshold	Rate[1]
$18,201 - $37,000	19.0%
$37,001 - $87,000	32.5%
$87,001 - $180,000	37.0%
$180,001 and over	47.0%[2]

[1] Excluding Medicare Levy of 2%.

[2] Including 2% Temporary Budget Repair Levy (expires on 1 July 2017).

Superannuation

In this section we look at a range of things you can do before 30 June 2016 to get the most benefit from superannuation and maximise your retirement wealth.

Salary Sacrifice into super and you could save tax

Extra super contributions via salary sacrifice can be very tax advantageous (up to certain limits). Although any salary sacrifice contributions are "preserved" (i.e. remain within super), the contribution tax rate (15%) compares very favourably to most people's marginal tax rate. Talk to Harvest if you believe salary sacrifice would benefit you.

Example:

Paul is 45 and receives an annual salary of $75,000pa. He decides to salary sacrifice $833 per month (i.e. $10,000pa) into his super.

	Before	After	Difference
Income considerations:			
Gross salary	$75,000	$75,000	$0
Salary Sacrifice contributions	$0	$10,000	+$10,000
Taxable salary	$75,000	$65,000	-$10,000
- Less Income tax payable	-$15,922	-$12,672	-$3,250
- Less Medicare Levy	-$1,500	-$1,300	-$200
+ Low Income Tax Offset	+$0	+$25	+$25
Total take home pay	$57,578	$51,053	-$6,525
Super considerations			
Salary sacrifice amount	$0	$10,000	+$10,000
Tax on contribution (15%)	$0	$1,500	+$1,500
Net contribution to super	$0	$8,500	+$8,500
Total net benefit			
Net total benefit from gross salary	$57,578	$59,553	+$1,975

By re-arranging his package, Paul has effectively given himself a nearly 3.4% pay rise!

However, take care when making salary sacrifice contributions, there are limits!

Salary sacrifice is an arrangement between you and your employer in which you elect to contribute part of your gross salary into super. Salary sacrifice forms part of your concessional contributions (which also include your employer's 9.50% compulsory SG contributions, and further contributions made by your employer and any contributions to a superannuation insurance policy) and are subject to the concessional contributions cap which places a limit on the amount which can be contributed to super.

Until 30 June 2017, the annual cap for those turning up to 49 year of age in the Financial Year is $30,000, while the annual cap for those turning 50 or more is $35,000. It is proposed that the cap be reduced to $25,000 for all people, regardless of age, from 1 July 2017. It may therefore be in your interests to act now to take advantage of the relatively higher caps.

If you are currently making salary sacrifice contributions or commencing salary sacrifice contributions, take care not to exceed these caps as contributions above these caps are taxed at your marginal tax rate plus an interest charge rather than at the concessional tax rate of 15%.

Tip: Seek advice

If you are considering starting to salary sacrifice into your super account, we suggest that you seek professional financial advice to make sure it would benefit you.

Take advantage of the Government Co-contribution scheme and you could add up to $500 to your super

The government co-contribution is a scheme that rewards low income earners for making extra contributions into their superannuation fund. Currently the co-contribution is:

- $500 if you earn less than $35,454
- $1-$500 on a sliding scale if you earn between $35,454 and $50,454.

Think of it as a 50% return on the money you have contributed! To be eligible to receive the government co-contribution you need to make your after tax contributions before 30 June 2016. Most super funds will allow you to make this contribution via BPay, EFT or a cheque payment. You can also contribute into your children's superannuation fund and earn a government co-contribution for them (as long as they are working and earn less than the $50,454 threshold).

Help boost your spouse's super and you could get a tax rebate of up $540

The spouse contribution rebate allows one person in a relationship to contribute money into their spouse's superannuation account while earning a tax rebate for themselves. This is particularly relevant for families (de facto and married) where there are two working adults - one full time and the other who earns less than $13,800 per annum. You will receive a tax rebate of 18% for any money you contribute (up to $3,000) into your spouse's account. The maximum rebate available is $540. To be eligible, a spouse contribution must be made from your after-tax income and must be made before 30 June 2016.

Contribution Splitting

"Splitting" your concessional super contributions (i.e. your 9.50% SG and any Salary Sacrifice contributions) with your spouse may minimize tax and produce other benefits. Under the current rules, you can transfer up to 85% of your concessional contributions to your spouse's super fund (provided your spouse is under 65 and not retired). If your spouse is older than you, this may allow them to access this money earlier as they will reach their preservation age before you. To split your contributions for this financial year, the appropriate form must be submitted to your super fund.

We suggest that you seek professional advice to see if this strategy would benefit your situation.

Get your kids started on the road to super

Anyone earning up to $35,454 can put money into their super and the government will add up to $500 to that. There's no age minimum for your kids. They just need a tax file number and have earned income from a job (not exceeding $50,454). Make an after-tax contribution (of up to $1,000) into your working child's super account and they could get an extra $500 from the government (contribution amounts change based on your child's income).

Consider making after-tax personal contributions

You may wish to consider making contributions to your super account from your after-tax income. These contributions are known as non-concessional contributions and can be an effective way to reduce tax, particularly on the investment earnings of that money if contributed to super. Investment earnings in super are taxed at a maximum of 15% as opposed to your marginal tax rate.

In this year's Federal Budget, the Government proposed to introduce a lifetime cap of $500,000 on the amount of after-tax contributions (non-concessional contributions) which an individual is able to make into super. This cap applies from budget night (3 May 2016) and includes all previous after-tax contributions made since 1 July 2007.

Those who have already made after-tax contributions in excess of this level will not be required to withdraw the excess amount, however will be unable to make any further after-tax contributions going forward.

Tip: Contribute your tax redund to super

You can contribute your tax refund into super. This may give you (depending on your taxable income) a government co-contribution in the next financial year.

This can be an effective way to grow your super and get a little bit extra from the government.

SG contribution rate increase timetable

The compulsory Superannuation Guarantee contribution rate is currently scheduled to progressively increase from the current rate of 9.5% to 12.0% according to the following timetable.

Financial Year	SG Contribution Rate
1 July 2015 to 30 June 2021	9.50%
1 July 2021 to 30 June 2022	10.00%
1 July 2022 to 30 June 2023	10.50%
1 July 2023 to 30 June 2024	11.00%
1 July 2024 to 30 June 2025	11.50%
1 July 2025 onwards	12.00%

Review your investment strategy

The end of the financial year offers a good opportunity to review your investments to determine whether you are content with the performance of the assets you hold and to ensure that your investments continue to match your personal risk profile. Perhaps you hold assets (particularly in a Self-Managed Super Fund) which are underperforming and it makes sense to sell, or perhaps you have carry-forward capital losses which you can use to minimise your net capital gains and thus reduce your capital gains tax liability.

If you are making changes to your assets, be weary of 'wash-sale' rules. A 'wash-sale' involves the sale and immediate repurchase of the same investment in order to either realise a capital loss or reset the cost base of that investment. This is considered tax avoidance by the ATO and is harshly penalised.

Tip: Update your SMSF investment strategy

If you are either a trustee of a self-managed super fund (SMSF) or a director of a corporate SMSF trustee, now is a good time to review and update your investment strategy to ensure that the SMSF's investments have been made in accordance with its Trust Deed.

Claim any unclaimed super

The government currently transfers to the Australian Tax Office (ATO) the balance of all unclaimed super accounts with a value of less than $2,000 where the owner has been unidentifiable for more than 12 months. If the owner finds and claims the money, the ATO will pay interest from 1 July 2013 on the unclaimed money at a rate equal to the inflation rate.

Click here to access the government's SuperSeeker tool and find out if you have any unclaimed super. You can easily rollover any unclaimed super into your main super account.

Review estate planning arrangements

The end of the Financial Year often presents a good opportunity to review your estate planning arrangements.

A properly drawn up Will protects the interests of your family should anything happen to you. You can also tell your super fund that you wish any death benefits that may become payable to be paid into your Estate. Simply complete a Nomination of Beneficiary form from your fund. You can also nominate your Spouse (incl. Defacto Spouse and same sex partner), children and financial dependents.

Tip: Estate Planning

1. Will

It is often best to get your Will done properly by a qualified solicitor. If you don't have a solicitor, you can contact the Law Society in your state who can refer you to an appropriately qualified law firm. Ask them for a quote first and plan ahead to think about who you would like to be the executor of your Will, your Power of Attorney and who you would like the beneficiary/ies of your Estate to be.

2. Consider a Testamentary Trust

When you meet with a solicitor, ask about Testamentary Trusts.

2. Beneficiary nomination in super

It is also important to ensure that you have made a valid Nomination of Beneficiary on your super account and to update this as and when circumstances dictate.

Create a budget

Now is the time to start thinking about planning your day to day finances for the next financial year. One of the best ways to do this is to create a budget. Here are our top tips for creating an effective budget:

1. Identify and list down what you want to achieve.
2. List them in order of importance (most important to least important).
3. Break your goals down into short term (1-2 years), medium term (3-5 years) and long term (over 5 years).
4. Determine what action you need to take and any resources you need in order to implement your action items and ensure you write them down.
5. Evaluate your progress on a regular basis and take corrective action if/where needed.

Tip: Budgeting

Contact Harvest for a copy of our free budget worksheet and get started today.

Savings and wealth creation checklist

- ☑ Reduce your non-deductible debts – things like mortgages, credit cards and personal loans,
- ☑ Open a high interest savings account for a specific savings purpose and ask your employer to pay a portion of your salary into this account,
- ☑ Make salary sacrifice contributions into your super account via your employer to gain a tax advantage. (Note: the limits on concessional contributions discussed earlier),
- ☑ Access a government super co-contribution by making additional after tax contributions to your super, depending on your taxable income,
- ☑ Consolidate your entire super into the one account (best seek advice first),
- ☑ Consider your financial roadmap by having Harvest assist you in preparing a personal financial plan. Like a personal trainer, our goal is to make you stronger and fitter (financially).

Other things to consider

- Consider the appropriateness of a self-managed super fund. Talk to Harvest for advice,
- Would you benefit from holding some assets in your spouse's name? Talk to Harvest. We can give you advice in this area,
- Effectively timing when you receive income or realise a capital gain (or loss), prepaying investment expenses and/or your insurance premiums or deductible expenses, can be very tax effective strategies you could use,
- Borrowing (i.e. "gearing") to invest can be a very tax effective way to build wealth over the longer term,
- Is your mortgage competitive? Make sure you are not giving your bank more of your money than you need to. Get your mortgage reviewed to ensure it is structured correctly and that the interest rate is competitive. Click here to view our current best interest rates.

If you would like any more information or advice on