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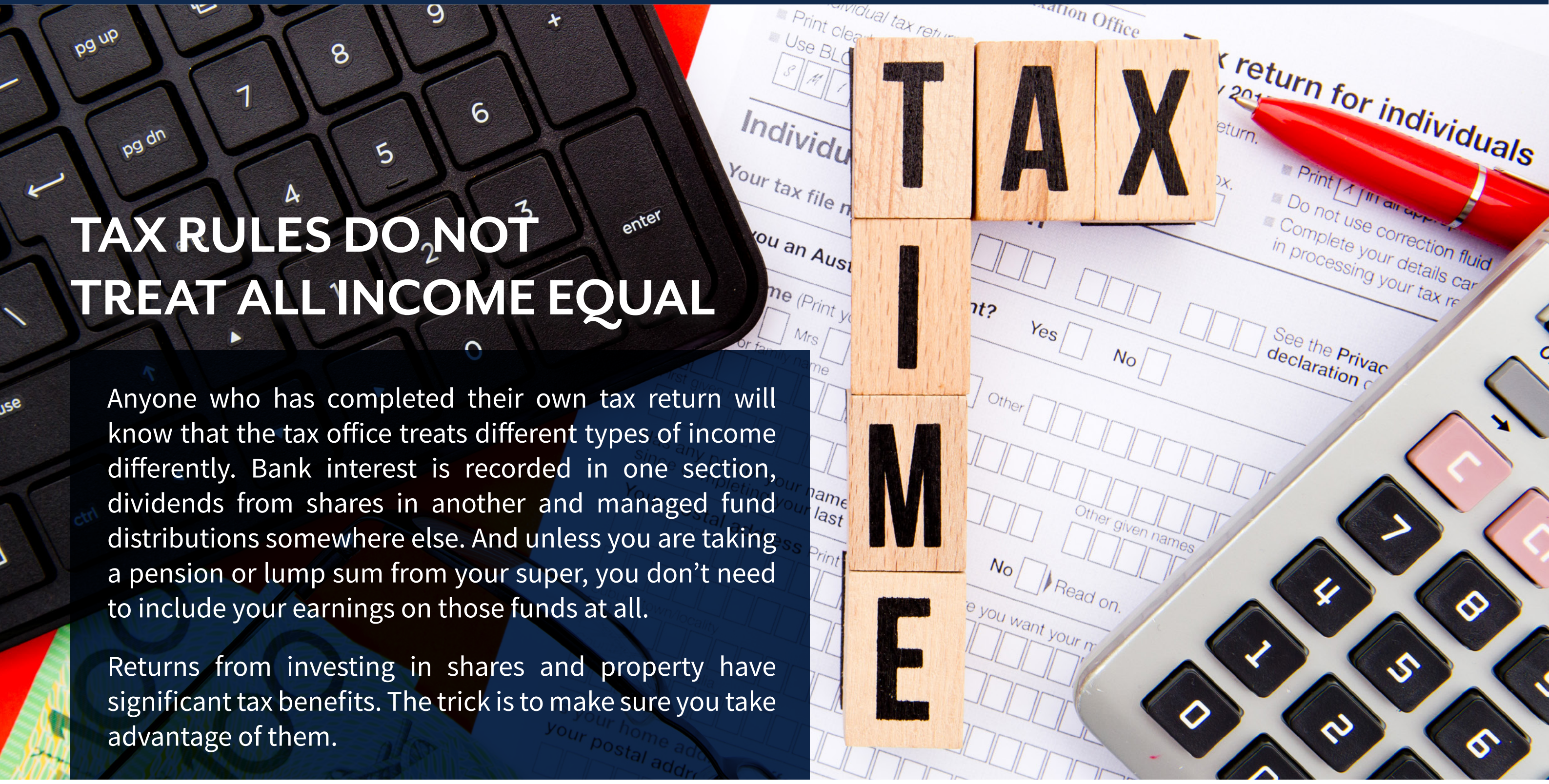

TAX RULES DO NOT TREAT ALL INCOME EQUAL

Anyone who has completed their own tax return will know that the tax office treats different types of income differently. Bank interest is recorded in one section, dividends from shares in another and managed fund distributions somewhere else. And unless you are taking a pension or lump sum from your super, you don't need to include your earnings on those funds at all.

Returns from investing in shares and property have significant tax benefits. The trick is to make sure you take advantage of them.

UNDERSTAND THE RULES

The most common tax benefits are:

- Franked dividends from Australian shares – these represent a tax credit of up to 30% for tax already paid by the company. But beware, if your franking credit entitlement is over $5,000 the shares must have been held for at least 45 days.
- A fifty percent discount on the capital gain made from the sale of a personally held asset. Superannuation funds can qualify for a one-third discount. But this only applies where the asset has been held for at least 12 months.
- Capital losses can be offset against capital gains and the net gain is only payable when the asset is sold. The tax can be deferred for a long time. These operate in the form of Deferred tax asset or liability.

CHOOSE WHO OWNS THE ASSETS

The best tax outcome can be achieved with a low-income earner holding investment assets. They could earn up to $20,542 tax-free, receive a refund of all imputation credits and pay less tax on capital gains. For instance, if an investor on the top marginal tax rate of 47% had a $100,000 capital gain they would pay $23,500 in tax and Medicare. If an investor with no other income had a $100,000 capital gain, they would pay $8,797 – a saving of $14,703.

CHOOSE THE STRUCTURE

Superannuation funds have the most generous tax arrangements. If you manage a share portfolio in a super fund, capital gains will be taxed at 10% or 15%, whereas if you held them privately, they would be taxed up to 23.5% or 47%.

Imputation credits are especially valuable in a super fund because the fund pays a flat 15% tax and the 30% tax credit can be used to offset tax on other income.

BE SMART ABOUT TIMING

The 45-day and 12-month rules are obviously important to maximise tax benefits. Capital gains are only incurred when an asset is sold and capital gains tax (CGT) can be deferred indefinitely. An investment asset can be passed through your estate to future generations and no CGT would be payable.

Superannuation provides special opportunities to avoid CGT altogether. In the accumulation stage of superannuation, the fund pays tax at 15% but once a pension is started, the fund pays no tax at all. A share portfolio or a property can be sold once the pension has started and no CGT would be payable. The opportunity to invest tax-effectively using some of these methods will vary from one person to the next. Make sure you seek advice about how they relate to your own situation.

NEXT STEPS

Get in touch with Enrizen via email or phone to review your tax and accounting and discuss options today.

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