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Four Powerful Tax Strategies to Help an Individual Taxpayer Pay Less Tax

Strategy One - Increase PRODUCTIVE work related Deductions & Other Deduction

Basically, only spend money on work related deductions that will give you a benefit in the future. Otherwise, why spend on work related deductions that provide no future benefit. The Taxation Office will only reimburse most taxpayers around a 1/3 of your work related expenses. You may as well pay 1/3 extra in tax if your work related deduction has no future benefit. Just place the after tax savings onto your mortgage. Some examples of productive work related deductions are as follows;

Examples;

- Self-Education – Increases your future income
- Courses & Books – Increases your future income
- Income Protection – Protects your income
- Office Equipment – Any devices such as ipads, laptops or mobile phones that make your more time efficient
- Tools – If you in the trades good tools can save time and money

Strategy Two – Become a Contractor / Business

Become a business. It allows you to claim a lot more expenses you are already spending on anyway. Also, you may be able to income split with your wife and children further reducing your taxes.

A real business is one where you have many clients you are servicing.

A contracting business is one where you have less than 80% of your income from one source.

Both businesses increase your deductions and allow you to income split. However, obtain advice from an accountant because every situation is different.

- Business / Contractor Rules
 - 80/20 Rule – Less than 80% of your income is from one source. E.g. you work on contract for two places. You earn \$70,000 from one place and \$30,000 from other. Technically, the Tax Office recognizes you as a business. My example of Jim and Mary below show the possible impact in tax payable from qualifying as a business or not.
 - Employment 80/20, Premises & Equipment – You may also qualify as a business if all your income is from one source however you have several employees assisting you with servicing the contact. E.g. You have a transport contract with Joe's Timber Yard and have four trucks with four drivers servicing the contacts. 25% of the work (less than 80%) is carried out by each individual therefore you are considered a business.
- Extra Deductions
 - Home Office Rent & Utilities
 - Car Expenses
 - Travel
 - Education
 - Computers & Office Furniture
 - Client Amenities
 - Internet & Phones
 - Income Splitting
 - Superannuation \$30k x 2
 - GST Reimbursement On Cars & Other Equipment

Example;

Jim married to Mary - Earns \$250k as a sales contractor – Has 3 kids aged 12, 16 & 19 and none has an income – Pays \$600 pw in rent & \$4,000 a year in utilities – Drives a \$20,000 car with a \$15,000 loan on it and annual running costs of \$10,000 pa – Spends \$5,000 per annum on travel & \$2,000 per annum on self-development courses - Has a laptop & tablet both worth \$2000 – Has \$3,000 in office furniture – Has a mobile costing \$4,000 pa & home internet / phone costing him \$1,200 pa – His wife doesn't work no income but helps in supporting him with administration & appointments etc. She has her own car – He would like to contribute to his wife's super since he doesn't have much perhaps \$30k each pa

	Individual	Business
Income	250,000	250,000
Less Deductions		
Rent	0	9360
Utilities	200	450
Car Depreciation	2,625	3,750
Car Interest	840	1,200
Car Running Costs	5,600	8,000
Second Car Rate Per Km	0	3,650
Travel	0	5,000
Courses	2,000	2,000
Depreciation Equipment	1,200	1,200
Depreciation Office	0	600
Mobile Phone	4,000	4,000
Home Internet / Phone	600	1,200
Wife Wage	0	22,000
Wife Super	0	30,000
Trust Distribution 19yo	0	22,000
Total Deductions	17,065	114,410
Taxable Income	232,935	135,590
Tax Payable	81,861	40,492

The example above shows that Jim will save up to \$41,369 in tax annually by earning his money as a business as opposed as earning it as an individual.

Strategy Three – Salary Sacrificing For Superannuation

- Superannuation

Example Superannuation

Jim earns \$120,000 per annum. His top rate of tax is therefore 38.7%. His employer pay super guarantee levy of 9.5% of salary = \$11,400. Jim can still salary sacrifice \$30,000 - \$11,400 = \$18,600 in additional superannuation. This \$18,600 in additional super will be taxed at 15%

Therefore Jim saves 23.7% (38.7% - 15%) of every salary sacrificed contribution under the government threshold limit

Therefore \$18,600 x 23.5% (38.7%-15%) = \$4,371 pa

If you take \$4,371 saving over a 25year work life and assume a rate of return of 7% and an inflation rate of 3% what would he save in real terms over the course of 25 years?

<u>Year</u>	<u>Cont</u>	<u>Int 4%</u>	<u>Accum</u>
1	\$4,371	\$0	\$4,371
2	\$4,371	\$175	\$8,917
3	\$4,371	\$357	\$13,645
4	\$4,371	\$546	\$18,561
5	\$4,371	\$742	\$23,675
6	\$4,371	\$947	\$28,993
7	\$4,371	\$1,160	\$34,523
8	\$4,371	\$1,381	\$40,275
9	\$4,371	\$1,611	\$46,257
10	\$4,371	\$1,850	\$52,479
11	\$4,371	\$2,099	\$58,949
12	\$4,371	\$2,358	\$65,678
13	\$4,371	\$2,627	\$72,676
14	\$4,371	\$2,907	\$79,954
15	\$4,371	\$3,198	\$87,523
16	\$4,371	\$3,501	\$95,395
17	\$4,371	\$3,816	\$103,582
18	\$4,371	\$4,143	\$112,096
19	\$4,371	\$4,484	\$120,951
20	\$4,371	\$4,838	\$130,160
21	\$4,371	\$5,206	\$139,737
22	\$4,371	\$5,589	\$149,698
23	\$4,371	\$5,988	\$160,057
24	\$4,371	\$6,402	\$170,830
25	\$4,371	\$6,833	\$182,034

Return After Inflation Rate = 7% - 3% 0.04

Jim will be \$182.034 in real terms better off just from tax savings for contributing maximum deductible super for 25 years.

Strategy Four – Negative Gearing

Jim buys a house worth \$450k and borrows \$330k on it. The interest rate on the loan is 5.5%. Rent is \$475 per week. It is a new house. The quantity surveyors report had depreciation at \$13,000 a year.

Rent – 5.5% Yield	24,750
Less Cash Expenses	
Interest	19,140
Agent Fees	1,421
Insurance	900
Rates	800
Water	800
Travel	400
Advertising	200
Repairs & Maintenance	1,500
Total Deductions	\$25,161
Net Rent	-\$411

Jim is not out of pocket. Cash flow wise he is at about break even

Jim also has a tax break at 38.5% on his depreciation amount of \$13,000 = \$5,005

Jim has lost nothing to hold this property in fact he is cash positive around \$5,000 because of the tax back on the depreciation breaks. As rents and property prices rise Jim is a winner. His only threat is rising interest rates so he needs to put extra on the mortgage each year (have a savings capacity) to offset any possible rises in interest rates.