UPDATED FOR
2013–2014
Fully tax-deductible

FOR ALL TAXPAYERS, WHETHER YOU:
- USE TAXPACK
- LODGE YOUR TAX ONLINE
- SEEK THE HELP OF A TAX PROFESSIONAL

101 WAYS TO SAVE MONEY ON YOUR TAX *Legally!*

ADRIAN RAFTERY

Wrightbooks
A Wiley Brand

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Dedicated to my two children — Hamish on earth and Sophie in heaven. Thank you for being the sunshine and angel in my life.

Contents

About the author

Adrian Raftery (MBA, B Bus, FCA, CFP, F Fin, CTA, MAICD), aka Mr Taxman, is fast becoming one of Australia's leading commentators on all matters relating to tax and finance. With regular columns in various investment magazines, a PhD scholarship and frequent appearances on TV and in the media, Adrian is Australia's newest financial expert.

Part of Adrian's 'tax' appeal as a financial media commentator is due to his personable and approachable style. Just as importantly, Adrian's 20 years' experience as an award-winning accountant working with small and medium businesses, and as a personal tax expert, means he has the relevant knowledge and experience to give qualified advice.

Adrian is considered so good at what he does that he is one of the youngest Australian accountants to have advanced to Fellowship with the Institute of Chartered Accountants at the age of 33 and had an award-winning Sydney accountancy firm at just 25! These factors and Adrian's ability to translate complicated tax and finance jargon into understandable and workable solutions are probably why 'Mr Taxman' is frequently called upon for his viewpoints by the Australian media.

How to use this book

This book is designed to be of benefit to 99.9 per cent of taxpayers. If you have an investment property, own a share portfolio, have money in superannuation, have a family, work as an employee or run your own business, there will be something in here for you.

While it is extremely unlikely that all 101 tips will be applicable to you, your family or your business, just feel comfortable knowing that one tip alone will be more than enough to pay for the investment you make in buying this book. This book has been written to take into account all phases of life, so if you find that only a few tips apply to you right now, don't worry because more tips will become relevant as you grow older. Make sure that you consult your own adviser to assess your own particular needs before implementing any of these tips.

If there is one constant with tax, it is change. That is why I update this book every year to take into account the latest federal budget changes in May each year. If you intend using this book as a reference guide over a number of years, you should always check the latest tax legislation for the current figures and thresholds.

Remember that tax planning should be a year-round exercise, not merely one that's done in the last few weeks before 30 June. A lot of these strategies are just as useful on 1 July as they are on 30 June.

Tip

When you see this box throughout the book, it will provide you with a handy suggestion in relation to the particular money-saving strategy.

Tax fact

When you see this box throughout the book, it will provide you with an interesting fact.

Pitfall

When you see this box throughout the book, it will outline a potential pitfall in relation to this money-saving strategy that you need to look out for.

Bonus resources

When you see this box throughout the book, it will provide you with a tool or a calculator available on my website www.mrtaxman.com.au to help explain or work out a strategy.

Introduction

In July last year, my wife and I were extremely fortunate to celebrate the birth of our son Hamish via a friend who acted as a surrogate mum. Before we started the surrogacy process, I remember her telling us that she had a gift to bear children, but 'a gift is not a gift unless it is given'.

I feel the same way about this book. Ever since I started working as an accountant at the age of 18, I have had a gift (some would say it is a curse) for understanding tax. But as a gift should be given, I have decided to share some great tax tips with you for a small tax-deductible fee (that is, the price of this very cheap book!).

This book has two objectives. First, I would like to help maximise everyone's refunds by making you more aware of the different ways that are available to help save money on your tax legally. Second, through the setting of boundaries, I wish to reduce the amount of fraudulent claims made so that we all pay a fairer share of tax.

My motivation for writing this book is the number of families out there who don't understand all the different types of government benefits and tax concessions that are available to them. I hope that this book will try to help reduce the confusion and that you will start claiming more of what you are legally entitled to.

This book is split into various parts in line with some key areas surrounding your finances:

- you and your family
- your employment
- your education
- your investment properties
- your shares
- your superannuation
- your business.

In each part I will share with you a number of tips and strategies that you can implement to save money on your taxes — legally!

You should leave no stone unturned in your quest to legally minimise your tax. While everyone should pay their fair share of tax, Kerry Packer summed it up best when he famously said 'don't tip them!'

Now I don't expect that every single tip will be applicable to every single person out there but I am confident that there will be at least one tip that will save you more than the cost of this book. Some tips will maximise your refund, others will minimise your tax, while others will simply save you money. Some may save you millions over a lifetime, others just a few dollars. But times are tough and every dollar counts.

Whatever you get out of this book, I hope it is positive and not too taxing! And this is my gift to you.

Mr Taxman

Part I

You and your family

There's just one thing I can't figure out. My income tax!

Nat King Cole (1919–1965)

From marriage and children right through to divorce, retirement and ultimately death, all families encounter many life-changing events. And in nearly all of these events, there are tax consequences along the way.

The Australian tax system offers a range of tax benefits including credits, refunds, offsets and bonuses to support families. Some people feel ambivalent about putting their hand out for government entitlements. But don't be shy in claiming your fair share. After all, the government doesn't get shy when it comes to taxing you!

Tax fact

Tax evasion and tax avoidance are *illegal* ways of reducing your tax payable. Tax planning and tax minimisation are *legal* ways of reducing your tax payable.

Part I looks at the tax concessions available to families, the special considerations you need to look out for, as well as some simple strategies to save tax within your family.

Tip

You need a tax file number (TFN) to be eligible for any of these tax concessions, as do your spouse and your children who have income, superannuation or investments.

1 *Marriage*

Accountants are frequently asked two questions by couples just about to get married: 'Are there are any tax implications once we tie the knot?' and 'Do we need to start doing joint tax returns?'

Your wedding day is a special day. So I'm perplexed as to why on earth the bride and groom are thinking about the ATO during such an exciting time in their lives!

You don't need to worry about tax in the lead-up to your nuptials. Unless you are involved in a business together, you don't have to lodge a combined tax return. Any share of joint investments, such as interest, dividends and rental properties, is still recorded separately in your respective tax returns.

Tip

You don't have to lodge a combined tax return if you're married. Any joint income is recorded separately in your respective tax returns.

You do need to show on your return that you now have a spouse, and disclose his or her taxable income each year.

Pitfall

The combined income of married couples is taken into account if you don't have private health insurance (an extra 1 per cent Medicare levy is charged if you earn over $168 000 combined, increasing to 1.5 per cent for couples earning more than $260 000) as well as when calculating Family Assistance Office benefits such as the baby bonus, child care rebates and family tax benefits.

If you elect to change your name, you can notify the tax office simply by noting it on the front cover of your next return. You don't need to provide any certified documents.

According to the ATO, the definition of spouse has been extended so that both de facto relationships and registered relationships are now recognised. Your 'spouse' is another person (whether of the same sex or opposite sex) who:

- is in a relationship with you and is registered under a prescribed state or territory law
- although not legally married to you, lives with you on a genuine domestic basis in a relationship as a couple.

Tax fact

Since 1 July 2009, people living in same-sex relationships have been treated in the same way as heterosexual couples for tax purposes. The ATO has outlined some of the tax concessions now open to same-sex couples, including:

(continued)

Tax fact *(cont'd)*

- Medicare levy reduction or exemption
- Medicare levy surcharge
- net medical expenses tax offset
- dependant tax offset
- pensioner tax offset
- SchoolKids Bonus
- spouse super contributions tax offset
- main residence exemption for capital gains tax.

It is not unusual to find a couple where each owns a main residence that was acquired before they met. However, spouses are only entitled to one main residence exemption for capital gains tax (CGT) purposes between them. If both members of a couple own a main residence they must either:

- select one residence for the exemption
- apportion the CGT exemption between the two residences.

Provided the homes meet the requirements for the main residence exemption, they will both be wholly exempt from CGT for the period prior to the couple being treated as spouses. However, from the time the couple became spouses, only one exemption is available, though this may be divided between the two dwellings.

Example

Mary bought a house in 1992. She lived in it right up to the day she married Matthew in 2006 and moved into his house, which he purchased in 2000. As they elected to treat Matthew's house as their main residence, Mary will be subject to CGT on her house from 2006. She will not be liable for CGT on any capital growth in the 14 years prior to becoming Matthew's spouse.

2 *Income splitting*

Income splitting is a legitimate tax-planning tool and one of the easiest strategies to implement. There are a few simple strategies for you to follow and they all mainly revolve around the marginal tax rates for yourself and your spouse, both now and in the future. The tax rates for individuals, not including the Medicare and other levies, are shown in table 1.1.

The goal is to try to level the income of couples so that they are paying tax at the same marginal rate. While income from personal exertion (such as your salary) cannot be transferred to the other partner, there is scope to have passive income from investments transferred if the assets are held in the lower-earning spouse's name.

Table 1.1: tax rates for individuals excluding levies (2013–14)

Taxable income	Tax on this income
0–$18 200	Nil
$18 201–$37 000	19c for each $1 over $18 200
$37 001–$80 000	$3572 plus 32.5c for each $1 over $37 000
$80 001–$180 000	$17 547 plus 37c for each $1 over $80 000
$180 001 and over	$54 547 plus 45c for each $1 over $180 000

Source: © Australian Taxation Office for the Commonwealth of Australia.

It amazes me how many smart business people are really dumb when it comes to reducing tax. Too often I see rich businessmen on the highest tax rate also paying 46.5 per cent tax on interest or dividend income while their spouses don't fully use their $18 200 tax-free threshold.

Tip

Ensure that all investments are in the name of the lower-earning spouse so that they can take advantage of the lower tax rates (particularly the first $18 200, which is tax-free) on any investment income derived. Likewise, have all passive deductions, such as charitable donations, in the higher-earning spouse's name as they may get a return of up to 46.5 per cent, depending on their income level.

The best tax outcome can be achieved with a low-income earner holding investment assets. They could earn up to $20 542 tax-free (see p. 19), receive a refund of all imputation credits, and pay less tax on capital gains.

Example

If an investor on the top marginal tax rate of 46.5 per cent had a $100 000 capital gain they would pay $23 250 in tax and Medicare levy. If an investor with no other income had a $100 000 capital gain they would pay $8547 — a saving of $14 703.

Pitfall

Any tax benefit derived by transferring an income-producing asset from one spouse to another may be lost if there is CGT to pay on assets originally acquired after 19 September 1985.

If you transfer an income-producing asset to your spouse you may need to find out the market value of the asset from a professional valuer. This is regardless of what you actually receive because the transaction is not independent nor is it at arm's length. In this situation either party could exercise influence or control over the other in connection with the transaction.

Tip

If you do not have a spouse, or you are both in the highest tax brackets, consider creating an investment company that is taxed at a flat rate of 30 per cent for all income.

3 Dependent spouse tax offset

If you have a dependent spouse then you can potentially be compensated by claiming an offset for him or her via your tax return.

Tip

If your spouse's adjusted taxable income was $285 or less and you maintained him or her for the whole year and neither of you were eligible for Family Tax Benefit Part B at any time during the year, you can claim the maximum tax offset of $2423.

According to the ATO, only Australian residents may be eligible to claim a dependent spouse offset if:

- your adjusted taxable income was $150 000 or less
- your spouse's adjusted taxable income was less than $9974
- your spouse was born before 1 July 1952
- neither you nor your spouse is eligible for Family Tax Benefit Part B or you are only eligible for it at a shared-care rate.

Pitfall

The offset for each dependant is reduced by $1 for every $4 that your dependant's adjusted taxable income exceeds $282.

Tax fact

The ATO defines your 'adjusted taxable income' as the sum of the following amounts, less any child support that you have paid:

- taxable income
- adjusted fringe benefits (reportable fringe benefits × 0.535)
- tax-free pensions or benefits
- income from overseas not reported in your tax return
- reportable super contributions
- total net investment loss for both financial investments and rental properties.

Example

Marlene and Saxon are married. Marlene has no salary or wage income. They have rental properties and a share portfolio. Saxon has also entered into a salary-sacrificing arrangement to boost his super. His taxable income is $130 000 after claiming a total net investment loss of $18 000. He has reportable super contributions of $17 000.

Saxon's adjusted taxable income is $165 000 ($130 000 + $18 000 + $17 000). As Saxon's adjusted taxable income is over the income threshold for this offset ($150 000) he is not eligible to claim the dependent spouse tax offset.

4 Dependent (invalid and carer) tax offset

The dependant (invalid and carer) tax offset (DICTO) was announced in the 2012 federal budget to consolidate eight dependency tax offsets into a single, streamlined and non-refundable offset, from 1 July 2012. It is only available to taxpayers who maintain a dependant who is genuinely unable to work due to carer obligation or disability.

Tax fact

The DICTO has consolidated the following tax offsets:

- invalid spouse
- carer spouse
- housekeeper
- housekeeper (with child)
- child housekeeper
- child housekeeper (with child)
- invalid relative
- parent/parent-in-law.

The ATO may deem you eligible for the DICTO if the following applies:

- you contribute to the maintenance of your spouse, your parent (or your parent's spouse), your child (aged 16 or over) or siblings (aged 16 or over)
- your dependant was being paid either:
  - a disability support, a special needs disability support or an invalidity service pension
  - a carer allowance for a child or sibling aged 16 or over

(continued)

Tax fact *(cont'd)*

- □ your combined adjusted taxable income as a couple was $150 000 or less
- □ your dependant's adjusted taxable income was less than $9974
- □ you and your dependant were Australian residents (not just visiting).

If you satisfy the above and your dependant's adjusted taxable income was $285 or less and you maintained him or her for the whole year, you can claim the maximum dependent (invalid and carer) tax offset of $2423.

Pitfall

Like the dependent spouse tax offset, the DICTO is reduced by $1 for every $4 that your dependant's adjusted taxable income exceeds $282.

Tip

You may be able to receive more than one amount of DICTO if you contributed to the maintenance of more than one dependant during the year, including if you had different spouses during the year.

5 *Children*

Any income that has been earned by your child's efforts, such as wages from an after-school job, is considered 'excepted income' and is taxed at the general adult tax rates regardless of whether your child is under 18. However, you should be cautious when putting investments in your child's name because minors do not enjoy the same tax-free thresholds as adults on this type of income. Table 1.2 sets out the tax rates that apply to minors' eligible income.

Table 1.2: tax on eligible income for minors (2013–14)

Taxable income	Tax on this income
\$0–\$416	Nil
\$416–\$1307	66c for each \$1 over \$416
\$1307 and over	45% of total income

Source: © Australian Taxation Office for the Commonwealth of Australia.

Pitfall

Minors under the age of 18 are taxed at the highest marginal tax rate for 'eligible income' (such as interest, dividends and trust distributions) over \$416 per annum.

If some of your child's income is excepted income and the rest is eligible income, he or she will pay ordinary rates on the excepted income and pay at the higher rate on the eligible income.

Example

Louie is 17 on 30 June. He earned \$8780 from a part-time job. He also received \$920 in interest from money he had saved over the years from gifts. Therefore, he has an excepted income of \$8780 and is entitled to the tax-free threshold of \$18 200 for this income. He also has eligible income of \$920 interest, which is taxed at the special higher rates.

A child is eligible from birth for a TFN from the ATO. If your child does not supply their TFN to the bank or share registry, then 46.5 per cent tax will be withheld on interest earnings over a threshold of $420 as well as on all unfranked dividends.

Children do not need to lodge a tax return if their assessable income is less than $416. However, if tax has been withheld from them by an investment body or employer, then they must lodge a return in order to get that money returned to them.

Tip

If you have an adult child who has a job while going to university or TAFE then he or she may be able to claim a deduction for certain expenses if there is a sufficient connection between their course and their assessable income.

Some expenses that they might be able to claim in this instance include:

- depreciation of assets (such as computers, desks and bookshelves) used for studying purposes
- journals and periodicals
- photocopying and printing costs
- stationery
- student union fees
- textbooks
- travel from work to place of study.

They would not be entitled a deduction for any tuition fees payable under HELP nor any repayments of outstanding HELP debts.

Earnings from a child's investments must be declared by the person who rightfully owns and controls the investment, not the person whose name it is in, or whose name it is held in trust for. This is regardless of whether the money is spent on resources for the child.