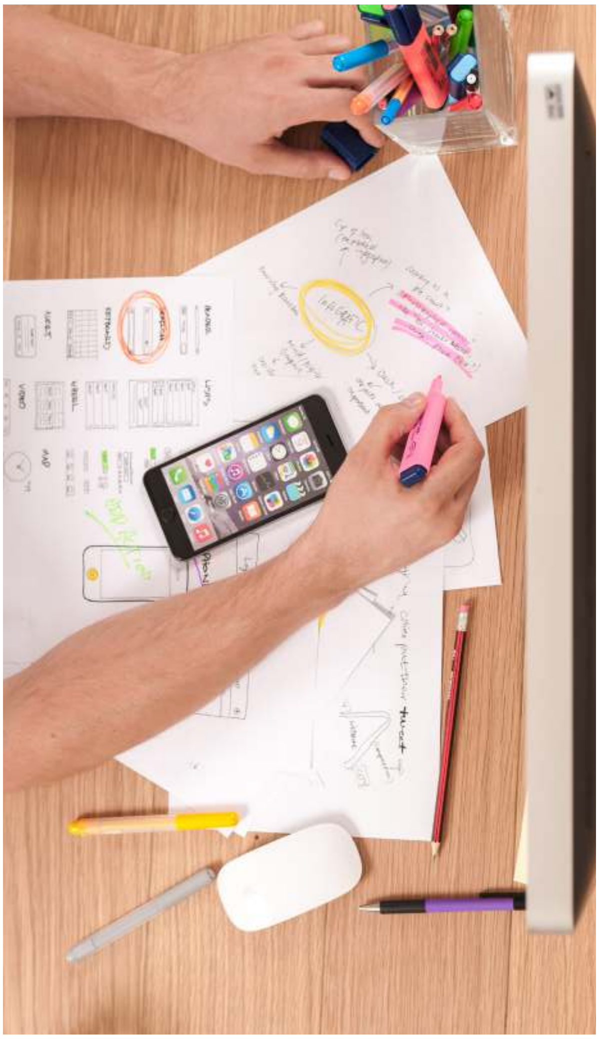
EOFY tips for your tax plan



The financial year is almost over, but there are still effective strategies you may be able to put in place. The aim is to make sure you pay no more tax than you have to for the 2020-21 year and maximise any refunds you may be entitled to. This is still the case, if not more so, in the on-going COVID-19 environment.

While the best strategies are adopted as early as possible in a financial year and not at the end, it's worth remembering proper tax planning is more than just sourcing bigger and better deductions. The best tips involve assessing your current circumstances and planning your associated income and deductions from income year to income year.

Not all of the following tips will suit everyone's specific circumstances, but they should provide a list of possibilities that may get you thinking along the right track for your tax planning.

Temporary full expensing

The temporary full expensing regime is now operable for depreciating assets acquired after 6 October 2020 and before 30 June 2022. The full cost of acquiring depreciating assets is deductible in the year of income in which the asset is first held, provided the item is first used, or installed ready for use, by 30 June 2022.

The cost of improvements made to a depreciating asset is also deductible in the year of income the improvements are made (no later than 30 June 2022). In contrast to the instant asset write-off rules, there is no upper limit on the amount that can be fully deducted in respect of any asset.

This may enable some effective tax planning between the 2021 and 2022 tax years where there are assets you have been looking to acquire or improve.

Investment property

Expenses stemming from your rental property can be claimed in full or in part, so, if possible, it can be helpful to bring forward any expenses that can be undertaken before June 30 and claim them in the current financial year. If you know that your investment property needs some repairs, some gutter clean up or some tree lopping, for example, see if you can bring the maintenance and (deductible) payments into the 2020-21 year.

It should also be noted that deductible rental property expenses remain deductible even if the property is not rented as long as it is genuinely available for rent (which is relevant in the current COVID-19 environment).

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Use the CGT rules to your advantage

If you have made and crystallised any capital gain from your investments this financial year (which will be added to your assessable income), think about selling any investments on which you have made a loss before 30 June. Doing so means the gains you made on your successful investments can be offset against the losses from the less successful ones, reducing your overall taxable income.

And while there may be many opportunities to realise capital losses in the current circumstances, you should be aware that the deliberate realisation of capital losses for the purpose of reducing capital gains in some circumstances may trigger a response from the ATO.

Keep in mind that for CGT purposes a capital gain generally occurs on the date you sign a contract, not when you settle on a property purchase or share transaction. When you are making a large capital gain toward the end of an income year, knowing which financial year the gain will be attributed to can be a handy tax planning advantage.

Of course, tread carefully and don't let mere tax drive your investment decisions – but check to determine whether this strategy will suit your circumstances, and whether you risk attracting the attention of the ATO in any way.

Final reminders

You can claim up to $300 of work-related expenses without receipts, provided the claims are reasonable for outgoings related to earning assessable income. If the total amount you are claiming is $300 or less, you need to be able to show how you worked out your claims, but you do not need written evidence.

No-one knows your affairs better than yourself, so you will recognise if any of the above tax tips applies to your circumstances. But no-one is better informed as to what is appropriate, or indeed allowable, than your tax agent (and don't forget, any fee is an allowable deduction in the year it is paid).

Every individual taxpayer is required to lodge their return before October 31, but tax professionals are generally given more time to lodge, which can be a handy extension to a payment deadline if any arises.

Of course, if you're sure you are going to get a refund there is no use delaying, so in these cases it is worth getting all of your information in and your return lodged as soon as you can after July 1 – especially if the value of a refund is important for your circumstances. ■

Pre-pay investment loan interest

If you have some spare cash, then see if you can negotiate with your finance provider to pay interest on borrowings upfront for the investment property or margin loan on shares (or other loan types) and make that deduction available this year. Most taxpayers can claim a deduction for up to 12 months ahead. But make sure your lender has allocated funds secured against your property correctly, as a tax deduction is generally only allowed against the finance costs incurred for the purpose of earning assessable income from investments.

Be aware that a deduction may not be available on funds you redraw from a loan of this type that is put to other purposes. Also, a component of the National Rental Affordability Scheme payment is not assessable income and therefore the deduction on these properties may need to be apportioned.

Bring forward expenses / defer income

Try to bring forward any other deductions (like the interest payments mentioned above) into the 2020-21 year. If for instance you know that next income year you will be earning less (for example, due to maternity or partner leave or going part-time), then you will be better off bringing forward any deductible expenses into the current year.

An exception will arise if you expect to earn more next financial year. In that case it may be to your advantage to delay any tax-deductible payments until next financial year, when the financial benefit of deductions could be greater. Tax planning is the key, as your personal circumstances will dictate whether these measures are appropriate.

It's probably leaving it a bit late to adopt this strategy now, but you could consider a tactic that can take advantage of this sort of timing and place money into a term deposit that matures after 30 June 2022. Then interest will form part of your taxable income in the following tax year.

Again, this type of strategy may be invaluable if you are anticipating less or more income next year as a result of some of the more longer-term effects of COVID-19 on the economy.