



STRATEGY TIP: Save the Kids Tax!

When a member of a superannuation fund dies, any death benefit payment to a dependent of the deceased (being the spouse or any dependent child of the deceased) would be tax free. However, where the death benefit payment is made to a non-dependent (an adult child), a 15% tax (plus Medicare levy) is payable on the taxable component of the death benefit payment.

For those of our clients that have reached their preservation age (55 years of age for most members) and have a high balance of taxable component in their accounts, there are strategies available (depending on their age and working status) to minimise the amount of tax that would be payable by the superannuation fund on the death benefit payment.

One such strategy when clients that have reached the age of 60 and are still gainfully employed, is the Transition to Retirement Income Stream to withdraw up to 10% of the value of their superannuation account balance tax free in any given year. This same amount could then potentially be re-contributed back to their superannuation account as a non-concessional (tax paid) personal contribution. The benefit of this strategy is to convert previously taxable components within their superannuation account balance to non-taxable components (thus reducing the tax on any subsequent death benefit payment).

While this strategy can be used from preservation age (eg. potentially from age 55) it will be most tax effective from age 60 and above.

Members who have reached their preservation age and have retired from gainful employment could also adopt this strategy but only if they are eligible to make contributions to their superannuation fund.

Anyone thinking of undertaking this strategy needs to work closely with their accountant and potentially our financial adviser Darren Foster at Paris Financial Services to maximise the benefits and ensure the relevant rules and regulations are followed. The penalties from the Tax Office for breaching the rules are quite harsh!



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When tax free allowances aren't always tax free



During the past few months we have had a number of clients who have found themselves having tax payable due to the inclusion of a "tax free" or "non-taxable" allowance in their tax returns. These allowances are often given as part of a salary package and most commonly include car and other travel allowances. Employers commonly refer to these as tax free or non-taxable as they do not withhold any tax from the payments on the basis that your deductions will exceed the income, and therefore, no tax will be payable. However, in some cases the allowance you receive can be far greater than your eligible deductions, leaving excess income for you to pay tax on. For example: Anne has been offered a new salary package that includes a \$10,000 car allowance that her employer has told her is tax free. If Anne's eligible car expenses

and other deductions exceed \$10,000 during the year, she will be able to offset this allowance in her tax return and effectively receive the allowance tax free. However, if Anne's deductions amount to only \$2,000 she will have only offset a small portion of her allowance, leaving a large amount still to be assessed in her return. Depending on the other circumstances in her case, this could leave Anne with tax payable.

We advise clients to determine whether tax will be withheld from their allowances or if they are truly tax free when negotiating salary packages with employers. There can be a great benefit of the increased periodic take home pay that comes as a result of having no tax withheld from your allowances but this only remains beneficial if you don't have to pay it back when you lodge your return!

If you have any questions relating to "tax free" or "non-taxable" allowances please call the office today and we will be more than happy to assist you.

Newly announced tax measures the Government will not proceed with

The newly elected Coalition Government have announced a number of tax measures which the government will no longer proceed with:

Self-Education Expenses Cap

(Announced as part of the 2013-14 Budget, and delayed for one year in the 2013 Economic Statement)

The Coalition Government will not proceed with Labor's announcement to put a \$2,000 cap on the amount people can deduct as self-education expenses, including training and education courses, textbooks and other accreditation expenses. Not proceeding with this measure means that these expenses will continue to be deductible according to the normal rule.

Fringe Benefits Tax for Vehicles

(Labour announced the measure on 16 July 2013 and documented it in the 2013 Economic Statement)

The Coalition Government will not continue with the Labor's \$1.8 billion Fringe Benefits Tax change that would make it harder for people to have a company or salary sacrificed vehicle.

Tax of Superannuation Pensions

(Tax earnings on super assets supporting retirement income streams announced in April 2013 and documented in the 2013-14 Budget)

The Coalition Government will not proceed with Labor's announcement which would have taxed people's superannuation pension earnings above \$100,000 in the draw-down phase.

Thin Capitalisation Changes

(Relating to tax structures that seek to shift profits through debt loading, announced as part of the 2013-14 Budget)

The Coalition Government will not proceed with Labor's proposal to deny deductions made under section 25-90 of the Income Tax Assessment Act 1997. Australian companies will be able to continue to claim deductions for interest and other debt-related expenses for their overseas investment. The Coalition Government will instead introduce a targeted anti-avoidance provision after detailed consultation with stakeholders. Details of this consultation will be announced before the end of the year.

Offshore Banking Unit

(Announced as part of the 2013-14 Budget)

The Coalition Government will not proceed with the part of this measure that excludes all related party transactions, but have a targeted integrity measure to provide certainty for the industry. The government believes this will help Australian banks compete on a level playing field overseas, through access to competitive tax rates, and attract activity to their Australian operations.

Newly announced tax measures the Government will not proceed with...continued

Net Medical Expenses Tax Offset

(Announced as part of the 2013-2014 Budget)

The NMETO provides an offset for people when their medical expenses are high. The Coalition Government has confirmed that the medical expenses tax offset will be gradually phased out. The phasing out will allow current claimants to remain eligible for the offset until 2014-15

Source: Media Release from The Hon Joe Hockey MP

Principal Place of Residence (PPOR) becoming an investment property

What happens when I decide to turn my home—PPOR into an investment property? This is a very common scenario and you should be aware of the tax implications.

If you have a loan on the house, then it is a good idea to convert this to interest only until you have paid down your non-deductible loan on your new home. This is because the principal repayments on your loan will not be deductible, only the interest now that it has become an investment. If you increase this loan to fund the deposit for your new home, the interest on this increase will not be deductible. The ATO do not look at how a loan is secured, they look at how the money was spent, so in this case, redrawing to pay a deposit on a new home is private and therefore non-deductible.

If you turn your PPOR into an investment property then you need to ensure all records are kept in the same manner that you would follow for any other investment property. Eg. Rental income, expenses, depreciation schedule...etc. Also, look through your records and find the purchase information: year house purchased, purchase price, stamp duty paid, solicitor/conveyancer costs – as these costs will be used in the future when you decide to sell the house.

Should you choose to sell this property within 6 years of moving out, you can potentially nominate it as your PPOR and pay no Capital Gains Tax (CGT). Following from this, you will also need to understand that your new home will be subject to CGT for the time when you choose your old home as PPOR. You can only ever have one CGT free home at any one time.

Please contact the office if you have any questions regarding this topic.



Avoid the holiday rush—get your tax information in now

The end of the year is fast approaching. Be sure to get your information to us as soon as possible to ensure there are no delays. Currently the ATO turnaround time is approximately two weeks.



Our office will be closing over the holiday period

The office will be closed from **midday Friday 20 December 2013** and **reopen Monday 13 January 2014**.

We wish all our clients a happy and safe holiday season and look forward to seeing you in the new year.



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