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PRIVATE WEALTH MANAGEMENT

6 Little Known Tax Deductions

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Welcome to...

6 Little Known Tax Deductions Most Personal Investors Aren't Claiming.

Where you will learn the six most overlooked tax deductions we see year in and year out that are frustrating personal investors and costing them thousands in lost deductions.

About the author

Natasha is a Chartered Accountant with several years experience in public practice, taxation accounting, and corporate finance working in Australia and the UK. With a high attention to detail and an investigative mind, Natasha enjoys gaining an intimate understanding of a client's complete financial situation. This enables her to interpret results accurately and provide informed advice that is forward focused.

With a passion for numbers and a belief that accounting is fun, Natasha takes an enthusiastic approach to all engagements.

Natasha holds a Bachelor of Commerce (Accounting Major), Graduate Diploma in Chartered Accounting, is a member of the Institute of Chartered Accountants in Australia and New Zealand, a registered Tax Agent and is currently studying a Diploma in Financial Planning.

Who is this report for?

This report is aimed at the investors, aspiring investors and high income earners who want to maximise their available tax deductions – or in fact anyone who wants to reduce their tax payable each financial year.

This Guide will be extremely relevant for:

Personal Investors	High Income Earners
Aspiring Investors	Australian Tax Payers

If your personal finances are investment focused or you would like them to be, meaning you're drawing an income from an investment property/s, dividends from a portfolio of shares or managed funds, have debt associated with an investment or a combination of…

Then you may be loosing thousands on one or more of the tax deductions covered in this report.

Or

If a significant amount of your income is taxed each financial year and you want to know options for increasing deductions and reducing your tax payable, then this report will provide insight on lesser known investment deductions that can **help you achieve more tax efficient personal finances.**

Why this report is a '**must read**' for anyone earning income from investments, aspiring to do so, or who may be a high income earner looking to reduce thier tax payable!

The tax deductions addressed in this report are being overlooked by the very accountants and tax agents who are there to ensure your financial year tax obligations are met and all available tax deductions are claimed...

However, if you're not asking the right questions or your tax agent is not digging in the right areas, **eligible deductions go unclaimed**.

If you have a good relationship with your accountant or tax agent and believe they are doing a sufficient job, then the information you are about to read will either confirm this or highlight what could be a very valuable realisation – *not all accountants are equal*.

> In the ***10 minutes*** that it will take you to read through this report you will gain a better understanding of the less known areas an experienced, investment focused, accountant will explore to ensure all of your eligible deductions are addressed.

If it turns out your accountant or tax agent is not digging in the right areas, find a tax accountant who will...

At the very least, on completion of this report you will be equipped with a handful of deductions for your accountant to address, that will ensure the investment tax deductions you are eligible for **don't continue to go unclaimed**.

The 6 Little Known Tax Deductions Most Personal Investors Aren't Claiming.

1. Depreciation on second-hand properties

Many property investors who buy new are well aware of the significant tax benefits of depreciation – as much as $200,000 in the first 10 years when comparing a new property against an older acquisition.

If depreciation benefits are news to you, or you're considering property investing then this 12 minute video is a must watch - www.nexusprivate.com.au/services/property-investing/

What investors and accountants alike often overlook is the depreciation that can be claimed on second-hand properties.

We often see new clients with an older investment property who have not been advised of the financial benefits a depreciation schedule prepared by a quantity surveyor can contribute to their tax deductions.

You should note that in general, building depreciation can be claimed on any building constructed after the 19th July 1985. Although building depreciation can be claimed on the original cost only, even a building constructed 20 years ago may have a reasonable amount of depreciation that can be claimed.

Plant* and fitting depreciation can also be claimed and when you purchase the property a quantity surveyor can assign a market value to the plant and fittings.

Are you just after the work expenses you can claim? See our blog post: 108 work-related expense claims that could improve your tax return in 2015/16.

*Plant refers to items such as air conditioners, stoves and hot water systems.

2. Deductible expenses during construction

If you have purchased land to build a rental property you are entitled to claim expenditure such as interest on loans, council rates, and land tax in the year they are incurred so long as you intend to rent the property out. This is also true if you are renovating a property you intend to rent out.

We have seen many instances where client's **previous accountants have capitalised these costs** and hence the client has lost vital deductions in the year that they really needed them.

3. Investment Structuring

This is a lesson many investors learn after the damage has been done. Let's say you have acquired a healthy sum of money, these funds could be the result of savings, work bonuses, or personal windfalls (inheritance, severance, insurance) and you would like to invest them. While investments will provide opportunity for income and growth, unless debt is associated, directly investing funds will not provide a tax benefit

If you are paying down non-deductible debt, such as a home loan, **there is a more tax effective way you can invest your funds.**

Rather than directly investing your available funds, using funds to pay down non-deductible debt and then borrowing the equivalent amount to fund your chosen investment/s, using the newly created equity, enables you to deduct the investment expenses against the investment income earned (including interest charged on the borrowed funds).

> Including one additional step in your investing process can effectively turn existing non-deductible debt into tax-deductible debt without incurring any additional investment risk.

Although negative gearing is a well know deduction we see so many instances where clients with non-deductible debt directly invest cash sums rather than in a way that will improve their tax efficiency.

Side Note: Take care with "tax-effective" investments
The golden rule when considering any investment is to focus on the quality and prospects of the assets and treat any tax advantage as a bonus. Over time a good investment will be much more valuable than a poor investment with short-term tax benefits.

4. Investment Loan Facilities

If you are investing with borrowed money, or are looking to, then it is important to understand how your loan facilities can affect tax deductibility.

Because the cost of borrowing is expensive and lending time frames are long, the best time to learn about correct structuring is before borrowing. Another lesson many learn after the damage is done...

A common mistake existing investors make with investment loans is depositing surplus funds in to their investment loans (offsetting interest) then redrawing these funds at a later date for non-deductible purchases, unaware (until tax time) that funds withdrawn from an investment loan redraw facility reduces the tax deductibility of the loan.

e.g. Tim contributes 5 x $8,000 work bonus (totalling $40,000) to his investment loan of $250,000 reducing the debt to $210,000. The $40,000 is then redrawn to purchase a new car restoring the debt to $250,000. Because the car is a non-deductible expense, Tim can now only claim the interest on $210,000 (not $250,000) as a deductible expense.

Complexity increases exponentially when a line of credit facility is in place and the facility is used as a principal account for personal use, mixing deductible and non-deductible debts.

Incorrect structuring of investment loans can result in losing significant deductions.

Tax Ruling 2000/02 states how a mixed loan should be treated; the apportionment method applied by the ATO to this ruling is not a favourable one for the taxpayer and can only be rectified by splitting out deductible and non-deductible components of the loan – **a labour intensive exercise for any accountant.**

Our tips for structuring loans for maximising interest deductions:

1. Keep all tax and non-tax deductible transactions in separate accounts.
2. Use offset accounts, but be sure to off-set all personal debt before off-setting investmenmt debt.
3. If you have excess funds, have them sit in an offset account against your principal place of residence.
   By using an offset account in this way you preserve the deductibility of your principal place of residence if it eventually becomes an investment property.

5. Asset Ownership

It is important to consider the tax effect of who owns an asset. Assets that are negatively geared should be held in the name of the highest income earner to achieve higher tax deductions than if the asset were held in a lower income earner's name. It is also important to note the opposite applies for positively geared properties.

A following example illustrates the financial benefit the structural change can have on your finances...

- You have a 'paper loss' of $17,890 calculated on your investment property.
- Your partner is taxed at 19% you are taxed at 45%.
- If the investment property was held in your partners name the tax refund would total $3,399.10
- If the investment property was held in your name the tax refund would total $8,050.50
- **A difference of $4,651.40**

As a couple you would be financially better off holding the investment property in your name.

Asset Ownership and Borrowing Capacity
Geared assets held in one name only generally won't affect borrowing capacity, as most lenders will allow the loan to be in joint names even if the asset is held in only one name.

6. Minimising Capital Gains

Thousands of dollars can be saved by correctly timing capital gains and losses. For example, by timing a capital gain and loss so they both occur in the same tax year means the gain can be reduced by the capital loss. A large capital gain made in year 1 can not reduce a capital loss in year 2 – the loss would be carried forward to future years.

> Capital gains tax is only incurred when an asset is sold. Therefore the capital gains tax liability can be deferred indefinately by not selling the asset.

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.

> For more information on acquiring direct property through Super see our 4 minute video on how to buy property inside Super.

Why Are Deductions Overlooked?

For personal tax returns, most accountants and tax agents take a volume-based approach - **allocating a fixed cost and a finite time to complete and lodge returns.**

This approach leaves little time for an accountant to learn and understand individual financial circumstances. If your financial situation is complicated and doesn't fit within the volume-based approach, you could be missing out on the attention your financial situation requires.

Good accountants are not afraid to ask a lot of questions, take the time during their fact find to really understand your financial situation and focus on building a long-term relationship by working with you to create a more tax efficient financial position.

Are you getting the right financial advice from your Tax Accountant?

- Are you receiving suggestions on different ways you can improve your tax situation?
- Is your Tax Accountant able to answer your questions in a way you understand?
- Do they offer tax planning advice on financial structures and investment choices?
- Are they interested in your personal finances as a whole or the impact your mortgage / renovation plans / work bonuses / partners contributions / or goals, have on your tax position?

The most tax efficient treatment of your personal finances requires consideration of your complete financial picture.

Specialist tax accounting advice for all investment types, debts, trusts, and complex super strategies can be difficult to come by, and often investors are **unaware of the services and advice they should be receiving <u>but are not!</u>**

Find out how tax efficient your finances could be from an accountant who cares!

Tax planning is often viewed in a contradictory way - a last minute dash to reduce last year's tax bill or maximise the refund. **Take this opportunity to do something different!**

Take the next step, call us on 1300 473 347

What's the next step...

If you're curious to explore further, then the next step is to set up a time to conduct a complimentary [tax efficiency review](), normally via phone in the first instance.

During that initial chat, we'll evaluate your current financial situation and work with you collaboratively to create an immediate plan to improve your tax position.

If you enjoy the conversation and get value from it, we can discuss working together.

On the other hand, if what we come up with doesn't align with what you need, or for any reason we feel we're not the best team to assist in your situation, then there's no harm done – at least we explored the possibilities.

To take the next step, call us on 1300 473 347.

Or, complete the callback form:
www.nexusprivate.com.au/contact/

Whatever you choose to do from here, I hope the information included within this report has broadened your understanding of the lesser known tax deductions that you may be eligable to claim.

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