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16 tax tips for 2017

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Do you know the tax deductions and offsets for which you might be eligible?

The following tips may help you to legitimately reduce your tax liability in your 2016-17 return.

Claim work-related deductions

Claiming all work-related deduction entitlements may save considerable tax. Typical work-related expenses include employment-related telephone, mobile phone, internet usage, computer repairs, union fees and professional subscriptions.

Note that the Australian Taxation Office (ATO) will again check claims made in real time. Claim only what you are legally entitled to and be sure to have all necessary receipts or credit card statements to support them.

Claim home office expenses

When part of your home has been set aside primarily or exclusively for the purpose of work, a home office deduction may be allowable. Typical home office costs include heating, cooling, lighting and even office equipment depreciation.

To claim the deduction, you must have kept a diary of the hours you worked at home for at least four weeks.

For more information on home office expenses see www.ato.gov.au or your CPA Australia-registered tax agent.

Claim self-education expenses

Self-education expenses can be claimed provided the study is directly related to either maintaining or improving current occupational skills or is likely to increase income from your current employment. If you obtain new qualifications in a different field through study, the expenses incurred are not tax deductible.

Typical self-education expenses include course fees, textbooks, stationery, student union fees and the depreciation of assets such as computers, tablets and printers.

Higher Education Loan Program (HELP) repayments are not deductible. You must also disallow $250 of self-education expenses, which can include non-deductible amounts such as childcare costs.

Claim depreciation

Immediate deductions can be claimed for assets that cost under $300 to the extent the asset is used to generate income. Such assets may include tools for tradespeople, calculators, briefcases, computer equipment and technical books purchased by an employee, or minor items of plant purchased by a landlord.

Assets costing $300 or more that are used for an income producing purpose can be written off over a period of time as a tax deduction. The amount of the deduction is generally determined by the asset's value, its effective life and the extent to which you use it for income-producing purposes.

Maximise motor vehicle deductions

If you use your motor vehicle for work-related travel, there are only two choices for how you can claim.

If the annual travel claim does not exceed 5000 kilometres, you can claim a deduction for your vehicle expenses on the cents-per-kilometre basis. The allowable rate for such claims changes annually, so it is important to obtain this year's rate from the ATO or your CPA Australia-registered tax agent. Such claims must be based on reasonable estimates.

If your business travel exceeds 5000 kilometres, however, the log book method is required to claim a deduction for total car-running expenses.

Contact your CPA Australia-registered tax agent to clarify what constitutes work-related travel and which of the two allowable methods can be applied to optimise your tax position.

Rental property deductions

Owners of rental properties that are rented or are ready and available for rent can claim immediate deductions for a range of expenses, such as:

- interest on investment loans
- land tax
- council and water rates
- body corporate charges

- insurance
- repairs and maintenance
- agents’ commission
- gardening
- pest control
- leases (preparation, registration and stamp duty)
- advertising for tenants
- reasonable travel to inspect properties.

Landlords may also be entitled to annual deductions for the declining value of depreciable assets (such as stoves, carpets and hot water systems), and capital works deductions spread over a number of years for structural improvements like remodelling a bathroom.

It’s worth noting that the government has proposed that it will change the law to no longer allow travel deductions relating to inspecting, maintaining, or collecting rent for a rental property from 1 July 2017. This is an integrity measure to address concerns that such deductions are being abused.

Further, the government announced that from 1 July 2017 plant and equipment depreciation deductions will be limited to outlays actually incurred by investors in residential real estate properties.

Plant and equipment forming part of residential investment properties as of 9 May 2017 will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

You can contact your CPA Australia-registered tax agent to clarify if expenditure relates to repairs and maintenance that can be claimed immediately, or improvements which need be claimed over time.

Residential property and non-residents

The government announced that from 9 May 2017, Australia's foreign resident capital gains tax regime will be extended to deny foreign and temporary tax residents access to the main residence exemption. Properties held prior to this date will be grandfathered until 30 June 2019.

Maximise tax offsets

Tax offsets directly reduce tax payable and can add up to a sizeable amount. Eligibility generally depends on your income, family circumstances and conditions for particular offsets.

Taxpayers should check whether they qualify for tax offsets which, among others, include the low-income tax offset, senior Australians and pensioners offset and the offset for superannuation contributions on behalf of a low-income spouse.

Bring forward deductions and delay income for higher income earners

The effective highest marginal tax rate will decrease from 49 per cent in the 2016-17 year to 47 per cent in 2017-18, given the removal of the two per cent temporary budget repair levy, which applies to individuals deriving taxable income over $180,000.

Individual taxpayers in the highest tax bracket may wish to consider delaying income into the 2017-18 year, as it would be taxed at a lower rate. Conversely, such taxpayers may consider bringing deductions forward into 2016-17, as such amounts will be deducted at the higher effective tax rate of 49 per cent.

Care should be taken to ensure any action does not breach general anti-avoidance provisions or any specific provisions that could curtail activities such as the prepayment rules.

Accordingly, you may wish to contact your CPA Australia-registered tax agent if you are proposing to either defer deductions or bring forward income.

Superannuation

The changes to superannuation in the last 12 months are significant and require extra care. You may wish to consider making the maximum allowed concessional contribution before the new reduced concessional contribution cap of $25,000 per annum commences from 1 July 2017.

The concessional contribution cap for the 2016-17 financial year is $30,000 if you're under 50 and $35,000 if you're aged 50 or over. Concessional contributions include any contributions made by your employer, salary sacrificed amounts and personal contributions claimed as a tax deduction by self-employed or substantially self-employed persons.

If you're making extra contributions to your super and breach the concessional cap, the excess contributions over the cap will be taxed at your marginal tax rate, although you can have the excess contribution refunded from your super fund.

Similarly, from 1 July 2017 the annual non-concessional (post-tax) contributions cap will be reduced from $180,000 per annum to $100,000 and the three-year bring-forward provision reduced from $540,000 to $300,000. There will also be an additional constraint that individuals with a balance of $1.6 million or more will no longer be eligible to make non-concessional contributions. As such, you may wish to consider making the maximum allowed non-concessional contribution before the caps are reduced and the maximum threshold applied from 1 July 2017.

High-income earners are also reminded that the contributions tax on concessional contributions is effectively doubled from the normal 15 per cent rate to 30 per cent if their combined income plus concessional contributions exceeds $300,000. The threshold for the higher rate of tax will be reduced to $250,000 from 1 July 2017.

Importantly, don’t leave it until 30 June to make contributions, as your super fund may not receive the contribution in time and it will then count towards next year's contribution caps, which could result in excess contributions and an unexpected tax bill.

Self-employed tax-effective superannuation contributions

A self-employed person will be able to claim contributions to a complying superannuation fund as fully tax deductible up to the age of 75 in the 2016-17 tax year. However, such contributions will only be deductible if less than 10 per cent of the total of a person's assessable income, reportable fringe benefits or reportable employer superannuation contributions is attributable to their status as an employee. Such a deduction cannot increase or create a tax loss to be carried forward. Employers can also claim deductions for superannuation contributions made on behalf of their employees.

Consider the superannuation co-contribution

An individual likely to earn less than $51,021 in the 2016-17 tax year should consider making after-tax contributions to their superannuation so as to qualify for the superannuation co-contribution, if their circumstances permit. The government will match after-tax contributions 50 cents for each dollar contributed up to a maximum of $500 for a person earning up to $36,021. The maximum then gradually reduces for every dollar of total income over $36,021, and to nil at $51,021.

Consolidate your super

For most employees it makes a lot of sense to have your entire super in one place. You'll reduce the amount of fees you're paying, receive one lot of paperwork and only have to keep track of one fund.

Consider consolidating the super funds you do have into one fund. Compare your funds to work out which best suits your needs. Important things to look at are fees and charges, available investment options and life insurance cover. You can look at past investment performance as well – but remember, it is no guarantee of how the fund will perform in the future.

Once you have chosen the fund you want to keep, contact the provider, which will help you to transfer money from your other super funds.

If you have moved around or changed jobs occasionally, your old super fund may have lost track of you and there is a risk you may miss out on some super when you need it. To find lost superannuation create a myGov account and link it to the ATO.

Review your superannuation income stream

From 1 July 2017, a $1.6 million transfer balance cap will be introduced on the total amount that can be transferred into the tax-free retirement pension phase from accumulation. Superannuation balances in excess of the transfer balance cap can remain in the accumulation phase.

If you are in excess of the transfer balance cap before 1 July 2017, you will need to transfer the excess back to your accumulation fund or remove it from your superannuation before 1 July.

Equally, if you have a self-managed superannuation fund (SMSF) where at least one member is exceeding their transfer balance cap, the fund will no longer be able to segregate its assets for tax purposes to calculate exempt current pension income, and the proportioning method will have to be applied instead. Capital gains tax relief is available for SMSFs that reduce the amounts supporting superannuation income streams as a result, but it is only available until 1 July 2017.

If you are likely to be in excess of the transfer balance cap, seek independent advice from a licensed financial adviser or a registered tax agent before 1 July 2017.

Also from 1 July 2017, the tax exempt status of earnings from assets supporting transition to retirement income streams (TRIS) will be removed. Earnings from assets supporting a TRIS will be taxed at a maximum 15 per cent, regardless of when it commenced. You may want to seek independent advice regarding continuing with TRIS.

Seek independent advice on end of year tax-effective investment products

The end of the financial year often sees the emergence of what claim to be tax-effective investment products. If you are considering such an investment, seek independent advice before making a decision, particularly from your CPA Australia-registered tax agent.

Review salary sacrifice arrangements

Employees can consider salary sacrifice arrangements, under which their gross salary may be foregone to obtain either a packaged car for fringe benefits tax (FBT) purposes, or they can make additional superannuation contributions.

A 20 per cent flat rate applies when calculating a motor vehicle fringe benefit under the statutory formula method, regardless of how many kilometers it annually travels. However, there may still be some tax savings in packaging a car under these rules compared to the cost of funding all operating expenses from your net salary.

In addition, under these rules employees who predominantly use a car for work-related travel may be able to obtain tax savings by calculating the FBT paid on the car under the operating cost method, rather than funding their car expenses from after-tax salary.

Advice should be obtained from a CPA Australia-registered tax agent as to whether any salary sacrifice arrangements will be tax effective.