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Chartered Accountants

TECHNICAL GUIDE NO 3

TAX INVESTMENT ADVICE

If you are an investor in the areas of fixed interest, property or shares, there are many ways to structure transactions to legitimately reduce or defer tax payable.

Here are some basic tips to be aware of before entering into transactions to receive income or purchase or sell investments:

1 Defer Term Deposit Interest

Many financial institutions offer various terms on fixed deposits. If the current years income is likely to be higher than the next year and a term deposit is maturing shortly, a term of say 9 or 10 months could be selected so that the interest falls due in July or August. Not only is the interest and tax deferred until the next tax year, but it may also be taxed at a lower rate. The converse can apply if the current years income is likely to be lower and a shorter term can then be selected to allow the interest to be taxable in the current year.

2 Capital Gain Calculations

Capital gains on sale of shares, property or other assets are calculated based on the following rules:

- indexation of the cost base for CGT purposes will be frozen at 30 September 1999;
- averaging of capital gains will no longer apply to the disposal of assets after 21 September 1999;
- for assets acquired before 1 October 1999 and held for at least one year, individual taxpayers will have the choice of including in their assessable income either:
  - *half of the realised nominal gain;*
  - *the whole of the difference between the disposal price and the frozen indexed cost base;*
- for assets acquired after 30 September 1999 and held for at least one year, individuals will be taxed at half the difference between the disposal price and the original cost;
- from 1 October 1999 capital losses will be allowed to be offset against capital gains net of frozen indexation or the full nominal capital gain;

Therefore the timing of the sale of an investment can influence the amount of taxable gain or the year in which it is taxable. Waiting until the asset is held at least one year, can dramatically reduce the taxable gain or selling the asset in July instead of June can defer the tax payable for 12 months.

Of course the decision of the appropriate time to buy or sell assets should always consider the time that the best price can be obtained as a priority, rather than be completely tax driven.

It should be noted that in the case of property, shares or businesses which are acquired or disposed of under a contract, the time of acquisition or disposal is the date of making the contract not the date of settlement.

3 Capital Gains/Losses – June Tax Planning

If a capital gain is earned on an investment during the year, it is appropriate to review all other investments to determine if a loss can be generated to offset the gain before 30 June next year. Of course the decision to sell the loss investment should again be made on a commercial basis. The Tax Office also allows capital losses to be claimed in a company which is in liquidation where the legislation makes a written statement that there is no likelihood that the shareholders will receive any distributions during winding up.

4 Investment Deductions

The Taxation Office allows various deductions necessarily incurred in earning dividend, interest and distribution income.

The obvious areas of bank fees and government charges on investment bank accounts, and interest on borrowed funds used to purchase investments need no further explanation.

There are a number of other types of deductions that may be allowable depending on the size of the portfolio, and the number of investments and transactions, eg:

- subscriptions to investment publications and seminars;
- proportion of subscription to the Advertiser which includes the finance section;
- proportion of home/office expenses such as light, power, telephone and internet fees;
- postage and stationery;
- motor vehicle expenses incurred in travelling to banks, investment seminars, sharebrokers, financial advisors and company annual general meetings;
- proportion of computer hardware and software costs relating to recording investment information, transaction and balances.

5 Person/Entity Holding Investments

Before purchasing investment in a person or entity's name it is important to consider the tax rate of each person or entity to determine whether the lowest rate is being applied to the investment income or capital gain. Eg one family member may have a much lower tax rate than another or the set up of family discretionary trust may enable investment to be distributed to various family members at low rates.