PLANET WEALTH

Accredited by AMP Financial Planning | AMP

Newsletter - July 2021

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss " Tax-Return information" and provide you with information on " Capital Gains Tax" and " Home Loan Information".

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
Planet Wealth

Planet Wealth
54/195 Wellington Road,
Clayton VIC 3168
P 1300 004 254
E info@planetwealth.com.au
W www.planetwealth.com.au
Facebook Planet.Insurance.Australia
Twitter alisplanet

How to make the most of this year's tax return

With tax time nearly upon us, you might be interested in the following deduction tips, which may help increase the amount of money you get back.

Lots of things can affect your tax return, including sources of income from work, investments and any government assistance you may have received during the financial year.

Other factors that can play a part, include whether you have work-related expenses, such as from travel, equipment, clothing or what you might've forked out if you've been working from home.

Here's a quick rundown of things you could consider when preparing, lodging and hopefully maximising your tax return for the financial year ending 30 June 2021.

What tax deductions could you claim when you lodge your tax return?

Most tax deductions will be work related. However, a work-related expense will only be deductible if you weren't reimbursed by your employer, it directly relates to you earning an income, and you have a record, such as a receipt (unless the amount you're claiming is $300 or less, in some instances).

Work-related tax deductions may include:

- Vehicle and travel expenses
- Uniforms, as well as occupation-specific and protective work clothing, including footwear
- Working-from-home expenses, including electricity, phone and internet costs.

Note, a short-cut method for claiming these deductions will apply again this year (more info on this below)

- Education costs relevant to your job, such as course fees, textbooks, memberships and subscriptions
- Tools and equipment, such as sunscreen and sunglasses if you work outside, or laptop and relevant software if you work in an office or home office.

For more information on deductible items related to your specific industry, see the ATO's occupation and industry specific deduction guides[i].

Meanwhile, if your expenses are for both work and personal use, you can only claim a deduction for the work-related portion, which could for instance be 50% of your phone and internet bundle.

Another example might be if you go on an interstate study trip or conference, but are taking a holiday at the same time, you wouldn't be able to claim the entire trip as a work-related expense.

Additional deductions you may be able to claim:

- Certain personal super contributions if you've made any
- Interest, dividend and other investment related expenses
- Gifts and donations to deductible gift recipients, such as charities
- Last year's tax return fee, if you engaged a tax agent.

If you're having trouble keeping track of all your receipts, checkout the myDeductions tool in the ATO app[ii]. This allows you to save a record of your deductions throughout the financial year, which you can then upload at lodgement time.

Extra info if you're claiming working from home deductions this year

The ATO has announced that a 'shortcut' method will again apply as an option for calculating relevant tax deductions for anyone who has worked from home during the financial year (1 July 2020 to 30 June 2021)[i].

What this means is you can claim 80 cents for each hour you worked from home to cover any eligible tax deductions (noting, you may need proof such as a timesheet), rather than doing calculations for specific items.

As the shortcut is 'all-inclusive', you can't claim the shortcut and then claim for individual expenses, such as phone and internet bundles. However, if you wish to, you can still claim under the existing arrangements.

Aside from the short-cut method, a fixed rate method (52 cents per each hour you work from home) may allow you to claim other deductions, or the actual cost method can be used. For details, check out the ATO's home office expenses page[iii], as further research may be required if you're considering an existing method.

Where to go if you need a bit of help?

To make sure you have all the relevant information you need ahead of lodging your tax return, check out the ATO's tax time checklist[iv].

i https://www.ato.gov.au/Media-centre/Articles/Media-releases/Working-from-the-kitchen-bench---Here-s-how-you-sort-your-tax/

ii https://www.ato.gov.au/general/online-services/ato-app/mydeductions/

iii https://www.ato.gov.au/individuals/income-and-deductions/deductions-you-can-claim/home-office-expenses/

iv https://www.ato.gov.au/Individuals/Tax-Return/2013/Completing-your-return/Helpful-information-about-tax-returns/Tax-time-checklist/

What is capital gains tax and when might I have to pay it?

Capital gains tax may be payable when you sell a certain asset (such as shares, land or property) and make a profit.

Capital gains tax is charged on the profit you make from the sale of certain assets. These could be assets that you've purchased or inherited.

To give you a few examples, capital gains tax might apply to things such as shares, investments, land and property (unless it's your primary residence), and it may even apply to certain collectibles and personal items, depending on what you paid for them[i].

The good news is, if you understand the general ins and outs of capital gains tax in Australia, which we explain in more detail below, you could reduce the amount you have to pay[ii].

When is capital gains tax payable?

When you make a capital gain, the amount is included as part of your personal income for tax purposes. While capital gains tax has its own name, it's not a standalone tax.

What that means is any capital gains you've received will need to be declared when you lodge your annual tax return and will then be assessed as part of your total income for the year. The amount of tax you pay on that income will then vary depending on what income bracket you fall into. For more information go to: /www.ato.gov.au/rates/individual-income-tax-rates/.

In the instance you have a shared asset, you need to work out each owner's individual interest in the asset, as this is how capital gains and losses are determined for each party involved[iii].

Tip

You might be interested to know that strategies that reduce your total income might help to reduce the amount of tax you pay on any capital gains you make.

One example is if you make a tax-deductible super contribution. For instance, if you've sold an asset that you have to pay capital gains tax on and you decide to contribute some or all of that money into super, which you then claim a tax deduction for, this could reduce or even eliminate the capital gains tax that's owing altogether. However, there are things you should keep in mind.

How are capital gains calculated?

Generally, you can calculate your net capital gain by adding up your capital gains over the financial year and subtracting your capital losses (including any net capital losses from previous years that haven't been claimed already) and any capital gains discounts[iv] or small business capital gains tax concessions you may be entitled to[v].

The important thing to note is a capital gain is typically reduced by 50% when an asset has been held for at least 12 months[vi]. So, if you sell an asset you've owned for less than a year (an investment property or shares in a business for example), the entire gain will need to be included in your taxable income.

What assets does capital gains tax not apply to?

If you make a profit on an asset, there are instances where you won't be hit with capital gains tax.

Capital gains tax generally doesn't apply to[vii]:

- Assets acquired before 20 September 1985
- A property that is your main residence
- A car, motorcycle or similar vehicle
- Personal-use assets, which you paid under $10,000 for
- Winnings or losses from gambling and prizes.

The Australian Tax Office (ATO) has further details as to which assets are subject to capital gains tax and which assets are exempt on its website. For further details go to: https://www.ato.gov.au/General/Capital-gains-tax/CGT-assets-and-exemptions/.

How important is keeping records?

You must keep records of everything (every transaction, event or circumstance) that may be relevant to working out whether you've made a capital gain or loss from an asset for a period of five years[viii].

Also note, there's no time limit on how long you can carry forward a net capital loss and it can be deducted against capital gains in future years[ix], helping to reduce the tax you pay in future years.

i, vii ATO – CGT assets and exemptions
ii, vi ATO – Working out your capital gain
iii ATO – Joint ownership
iv, v, ix ATO – Working out your net capital gain or loss
viii ATO – Record keeping for CGT

Is your home loan still right for you?

Running a few simple checks on your home loan could potentially save you thousands of dollars over the life of your loan.

For many of us, paying off a home loan is likely to be one of the biggest regular expenses in our budget. And it could stay that way for up to 30 years. But that shouldn't mean you 'set and forget' it for the life of the loan.

Running a few simple checks will help you decide whether your home loan is still right for you, or whether you should be looking for a better deal. Here's how to get started.

Find out all the home loan features

Getting your head around all the types of home loans available can be confusing. It's even more so when each of them comes with a plethora of features, making a loan appealing (or unappealing) for different reasons.

Some (generally variable-rate loans) come with redraw facilities, which can be a handy home loan feature if you've made extra repayments in the past and need to access that cash for an unexpected expense.

Others have an offset account, which is a bank account linked to your loan. Any cash in the account is offset daily against your home loan principal, essentially reducing the interest you pay.

These features can sound good in theory, but they may also attract additional fees. For instance, the redraw feature on some home loans may have associated fees and withdrawal limits. An offset account may have an annual fee that more basic home loans may not. It's worthwhile checking which features you have bundled into your loan, and what they're costing you.

Understand your home loan interest rate

What interest rate are you currently paying on your home loan? With many first-home buyers borrowing hundreds of thousands of dollars, there's a big financial incentive to do a health check on your home loan.

Unfortunately, comparing loans is not as simple as looking at interest rates. While it's easy to be lured into a new agreement by a rate that seems lower, like many things in life, appearances can be deceptive.

There are two rates to consider when re-evaluating the interest payable on your loan: interest rates and comparison rates.

The interest rate is the annual interest cost for borrowing money, but it doesn't take into account any fees. The comparison rate incorporates the annual interest rate as well as most upfront and ongoing fees, providing a clearer picture of how much you'll be up for.

If you're looking at switching providers, it's a good idea to use comparison rates as your guide across various offerings. However, the comparison rate is calculated based on a $150,000 principal and interest loan over a 25-year term, so it's not necessarily an accurate rate for your circumstances.

Ask to reduce your home loan interest rate

If you find a lower interest rate on the market, you don't automatically need to change.

First, use a home loan comparison calculator

(https://www.amp.com.au/home-loans/calculators/loan-comparison-calculator) to evaluate the two loan types side-by-side, and a home loan repayments calculator *(https://www.amp.com.au/home-loans/calculators/home-loan-repayment-and-offset-calculator)* to estimate how much your ongoing mortgage repayments could be.

Next, you could contact your current lender and tell them you're thinking about switching. If you have a good credit rating and more than 20% equity in your home[i], you may be in a better position to negotiate.

If you've found a better deal and are still considering making a switch, be aware that the costs of refinancing may outweigh the savings made by switching. If you decide to go ahead, there are a number of steps to navigate when making the switch.
Next, you could contact your current lender and tell them you're thinking about switching.

Should you make the home loan switch?

If you do your homework (or get a mortgage broker to do it for you), it's possible you'll find a home loan option that offers a lower interest rate, lower fees, more flexible repayment options or better features than the one you have.

Get started in 3 easy steps

1. Find out the features of your home loan
2. Understand your home loan interest rate
3. See if you can get a better deal, or need to switch

i Moneysmart.gov.au: Switching Home Loans