

TAX STRATEGIES IN UNCERTAIN FINANCIAL TIMES

Hopefully the (financial) world hasn't ended by the time this article is printed but the economic future looks very grim. Planning and the adoption of appropriate taxation strategies are as important in bad times as they are in the good times. If the current financial crisis does not affect you directly it most certainly will have an indirect impact on you via your superannuation, your patients, your suppliers etc and the following tax strategies should be considered.

LODGE LATER

Most taxpayers are able to get an extension of time to lodge their income tax returns until at least March of the following year where they lodge through a registered tax agent. Unless you are expecting a large refund it would be prudent to delay lodging your return until as late as possible because:-

- a. You conserve cash flow because your tax is paid later.
- b. You conserve cash flow if you are paying tax quarterly as the installments will be based on prior year's (lower) income.
- c. Depending on your circumstances you may re-assess what deductions are claimed or income is included/distributed.

So that both you and your accountant are able to assess your financial situation and plan tax strategies it is important to have your tax return prepared early even if it is lodged later.

CAPITAL GAINS AND LOSSES

Capital gains are taxable in the year they occur and where the asset has been held for more than 12 months the capital gain should be discounted by 50%. This means you only pay tax on half of the capital gain and the other half is tax free. The taxable capital gain is included within all your other income.

When you make a capital loss on disposal of an asset the loss can only be deducted from capital gains and is not available to be

offset against any other income. Given the current situation with the stock market it is very likely that many investors will be caught with capital gains in 2007/08 and capital losses in 2008/09 and be unable to offset the losses in the later year against the earlier gains.

The timing of the capital gain or loss therefore becomes critical and the sale date for capital gains purposes is usually not the date you receive the proceeds but the date you have a legally binding contract for the sale. Particularly with property transactions where there can be long settlement periods it is important that you confirm with your accountant what dates are applicable in calculating your capital gain or loss.

SHARE TRADERS

Share traders are treated differently to share holders who as described above are unable to offset capital losses against other income. Share traders are treated as operating the business of earning income from buying and selling shares and therefore any losses they make are not capital losses but rather (income) business losses and therefore they can be offset against any other type of taxable income.

The Australian Taxation Office is always looking out for taxpayers who are share holders in the good times (for capital gains discounts) and share traders in the bad times (to offset share losses). If you have sustained heavy losses on your share portfolio it is critical that you discuss whether you are a share trader with your accountant as soon as possible.

The factors to consider if you are a share trader are:

- Were you a share-trader on your previous tax return?
- Is there a high volume of share purchases and sales?
- Is the activity carried out in a business like manner with proper records kept, analysis of company data and obtaining advice from experts?

VARY TAX INSTALMENTS

If your financial circumstances have changed you can always apply to reduce your 2008/09 income tax installments even where they are fixed amounts.

DELAY SUPERANNUATION CONTRIBUTIONS

If you are a self-employed/contractor dentist with an ABN you can claim a tax deduction for self-employed superannuation contributions provided you earn no more than 10% of your total income from salary and wages (ie. 90% of your income must come from contract dentistry to be considered predominantly self-employed).

If you do earn more than 10% of your income from salary and wages then you cannot claim any deductions for superannuation contributions. Therefore if you are currently working as an ABN contractor and making superannuation contributions for yourself but then your circumstances change and you become an employee you will be unable to claim any of the money paid to your super fund. It is therefore prudent to wait until just before the end of the financial year before making any superannuation contributions.

ADVICE

MW Partners advise a range of health professionals and are experts on the tax issues faced by dentists.

If you would like to discuss your financial or tax affairs and are a member of the ADAVB, your first consultation is completely free of charge. Please call **03 8825 5400** to make an appointment.