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DON'T GET TRAPPED

Close attention is required to minimise tax obligations. Here are some basics things to consider this time of year. Report: Sam McKeith

For investors, tax advice at this time of year is fairly simple: minimise the tax bill by focusing on superannuation and capital gains obligations and avoid tax traps. Following that advice can be difficult.

Investors should consider disposing of assets that will yield a capital loss this year if they want to offset capital gains from other investments, Duesburys Nexia partner Michael Bannon says.

"Anyone who has shares [that are trading below the purchase price] and is thinking of getting rid of them can crystalise a capital loss and can deduct that loss ... from any capital gain they got this year," he says.

"Capital losses can only be deducted against capital gains, so if you have a capital gain this year and there's a share portfolio you're thinking of getting rid of, it would be good to get rid of it in this financial year to offset a capital gain you may have in this financial year."

Investors need to remember that capital losses can be deducted only from capital gains produced by another asset. They cannot be used to lower income for the year. Often the capital gain is not realised (the asset isn't sold) for many years, so the benefit of the capital loss is not felt for several years.

"If you delay incurring capital losses until next financial year, you've got to sit around and wait until you make another capital gain to deduct that loss," Bannon says.

Investors should also be careful about trying to dupe the Tax Office, he says. This year the Australian Taxation Office is cracking down on wash sales – disposing an asset (usually shares) to generate a capital loss and then buying it back the next day.

"The ATO doesn't particularly like that," Bannon says. "You've embarked on a transaction for a tax avoidance purpose but your clear investment strategy is to retain these shares."

Wash sales carry a penalty of 25 per cent of

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Quick tips for investors

- Minimise capital gains by offsetting capital losses.
- Salary sacrifice extra superannuation contributions.
- Consider a self-managed super fund for capital gains and franking credits.
- Defer maturity on term deposits.
- Understand the deductions available for rental properties.
- Use a proactive adviser.

the tax avoided, plus a general interest charge of 11.16 per cent.

Investors putting extra money into their superannuation accounts can also avoid tax but Bannon warns that super is a complicated area. For example, people who earn more than 10 per cent of their income from wages or salaries cannot claim a deduction for super contributions.

Bannon says a good strategy is to salary-sacrifice super, which means "you're getting a deduction and you effectively avoid the application of the 10 per cent rule". The stumbling block, he says, is that salary sacrifices often can only be entered into when starting employment or at salary reviews.

Investors should consider establishing a self-managed super fund before June 30, Private Portfolio Managers advises. For those with more than $400,000 in superannuation, a "SMSF will allow you to benefit from franking credits which an investor may not be able to capitalise on in a public-offer fund," PPM head of corporate development Kris Vogelsong says.

A "proactive" tax agent is another essential, Vogelsong says. Many investors get stuck with a tax adviser who just "goes through the motions" when preparing tax returns.

"In that case you will probably miss every opportunity that is available to minimise tax," he says. "For instance, you wouldn't take advantage of matching your tax losses with your tax gains in order to minimise capital gains tax. He or she also probably wouldn't really look at what investment structure your investment was housed in and how that might be utilised to be more tax-efficient."

One common mistake at tax time, Vogelsong says, is to invest in a managed fund just before the end of the financial year and in the lead-up to annual distributions.

"You may receive the tax consequences of having been invested through the whole year when you've only invested for a period of weeks, which means you may receive an immediate tax bill just subsequent to your investment."

Investors should also be wary of putting money into a managed fund in which there has already been capital appreciation. Vogelsong says they can end up "paying tax on the gains they didn't actually participate in, which is a scenario that borders on the absurd".

He also cautions about making investments based purely on tax considerations. "Although tax benefits are important, investment fundamentals should be the key factor driving the investment process."

The tax implications of term deposits should also be looked at before June 30, HLB Mann Judd managing partner Steven Toth says. Investors should consider deferring maturity on term deposits until after the end of the financial year to defer tax liability.

"If you have a term deposit or set one up now that would mature before the end of June it would be assessable," Toth says. "But if you went for a 90-day term, that would mature in the next financial year."

He says that when realising capital gains on shares, investors should ensure they have held them for at least a year. Capital gains on shares held for more than 12 months, minus any losses, are discounted by 50 per cent under tax law.

"Usually people hold on to shares but if you're thinking of selling and haven't held them for more than one tax year you've got to be careful," he says. "If you're a couple of days out and haven't checked, you could end paying more tax."

Rental property owners can also claim expenses but ensure these costs are incurred before June 30. Deductible costs include interest on borrowed funds to purchase the property, body corporate fees, council rates, insurance, land tax, pest control, repairs and maintenance costs. BRW