

# Offset Capital gains tax

PA&M Financial Advisors Pty Ltd (PAM) are a qualified team of skilled and experienced Financial Planners. They have several financial strategies they can recommend and help you implement, which will assist you in realising your financial and retirement goals. Over the next two editions of *National Newsagent*, PA&M will share some of their most effective financial strategies and case studies.

## What is Capital Gains Tax (CGT)?

Capital Gains Tax is the tax charged on capital gains that arise from the disposal of an asset such as land and buildings, shares in a company or units in a unit trust. The capital gain is the profit you've made over and above the 'cost base' (generally what you purchased the asset for). You are liable for CGT if your total capital gains exceed your total capital losses in an income year.

When you hold an asset for longer than 12 months, your capital gain is reduced by 50%. The net amount is then added to your assessable income.

## Strategies to Offset CGT

There are a couple of effective ways to reduce your CGT liability. If one of your investments has reduced in value, one strategy would be to sell the ill performing investment at a capital loss to offset any capital gain you may have made by selling a successful investment. The loss is applied against the gain and the net result is

added to your income for the year. Another strategy for certain eligible people to reduce a CGT liability is to make a deductible contribution to superannuation. The deductible part of the contribution reduces your assessable income and therefore reduces your tax liability. By placing the money into super you are also building retirement savings in a tax effective vehicle.

*"When you hold an asset for longer than 12 months, your capital gain is reduced by 50%. The net amount is then added to your assessable income"*



The latter strategy is only available to individuals who are under 70 years of age and eligible to contribute to super by satisfying one of the following two tests:

### 1. The unsupported person test

To satisfy this test, for the whole of the financial year you must not have received any superannuation contributions from an employer. People that fall into this category are usually self employed, unemployed, retired for the entire year or employed people earning less than \$450 per month – if you earn less than this amount your employer is not obliged to make superannuation guarantee contributions into your account.

### 2. The 10 percent test

If you are employed and your employer is making superannuation contributions for you, you can still qualify under the 10% test, provided your assessable income from employment is less than 10% of your total assessable income from all sources.

**Case Study — Offsetting Capital Gains by Contributing to Super**

Tina is aged 50 and self employed. Her taxable income is \$95,000 and

she pays tax at 41.5% including the Medicare levy. She recently sold an investment property for \$350,000 and realised a capital gain of \$40,000. As she held the property for longer

than 12 months, this gain is reduced by 50% to \$20,000. The table below demonstrates the tax savings available to Tina based on differing levels of superannuation contributions.

	Contributing \$0 to super	Contributing \$25,000 to super	Contributing \$138,484 to super
Tina's taxable income before super and capital gain	\$95,000	\$95,000	\$95,000
Taxable capital gain (after 50% discount)	\$20,000	\$20,000	\$20,000
Personal tax deduction on super contribution		(\$20,000)*	(\$105,113)*
Taxable income	\$115,000	\$95,000	\$9,887
Tax on capital gain	\$8,300		
Total personal tax liability	\$35,575	\$27,275	\$583
Tax in super fund on contribution		\$3,000	\$15,767
Total tax payable	\$35,575	\$30,275	\$16,350
Overall tax saving		\$5,300	\$19,225

*\*as Tina is self employed, only the first \$5,000 of the contribution is fully deductible, then 75% of the amount above \$5,000 is deductible, up to her aged based limit (see below).*

Contributing \$138,484 allows Tina to claim the maximum possible deduction and reduce her taxable income to \$9,887. Her total tax liability is reduced from \$35,575 to \$16,350.

**For 2006–2007 this is:**

- the first \$5,000 contributed, plus 75% of any amount contributed above that, and
- a maximum level based on your age — the table below outlines the maximum deduction available and the amount of contribution needed to claim the maximum deduction.

Capital gains tax can be a complex area so it pays to get specific advice about how it applies to your individual circumstances. For further information on how to most effectively manage your tax liabilities and other financial strategies please contact Grant Arnold at PA&M Financial Advisors on (02) 9585 1255.

**Limitations on deductible contributions**

There is a limit (indexed annually on 1 July) to the amount of deduction you can claim on superannuation contributions.

Age	Maximum deduction	Contribution required to claim the maximum deduction
Under 35	\$15,260	\$18,680
35-49	\$42,385	\$54,847
50 and above	\$105,113	\$138,484



**Grant Arnold & PA&M Financial Advisors Pty Ltd are Authorised Representatives of Securitor Financial Group Ltd**

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