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The two big Heavy Hitters when it comes to

# Reducing your Personal Tax

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# Heavy Hitters when it comes to Reducing your Personal Tax.

One of the most common questions we are asked at numberwise is how can I maximise my tax return. This article details two of the heavy hitters in reducing your tax.

**The first of the heavy hitters when it comes to reducing your tax is negative gearing:**

# 1. Negative gearing

## What is Negative Gearing?

Negative gearing occurs when the cost of owning a rental property outweighs the income it generates each year. This creates a taxable loss, which can normally be offset against other income, including your wage or salary, to provide tax savings.

Negative gearing' happens when the costs of owning a rental property exceed the rent returns you earn. Most investors use some gearing from a mortgage to fund their rental property. The table on page 7 is an example of how the calculations are applied based on a property valued at $1,000,000 and a investment loan of $750,000.

As described by the ATO

"You won't find the phrase 'negative gearing' in tax legislation.

It is a commonly used term to describe a situation where expenses associated with an asset (including interest expenses) are greater than the income earned from the asset. Negative gearing can apply to any investment, not just housing.

Individuals, with property investments or some other income producing investments, who are negatively geared may be able to deduct their loss against other income, such as salary and wages. This is consistent with the broader operation of Australia's personal income tax system.

Australia's tax system operates on the principle that people pay tax on their personal income, less any expenses (called deductions) in generating that income."

Source: https://treasury.gov.au/review/tax-white-paper/negative-gearing

The following table is an example of how the calculations are applied based on a property worth $1,000,000 and the investment loan of $750,000. Example does not take into consideration of your personal circumstances, it based on the following assumptions. For specific advice speak with a registered tax accountant.

| | | | |
|---|---|---|---|
| **Property Value** | $1,000,000 | **Loan Value** | $750,000 |
| **Salary** | $100,000 per annum | **Tax Rate** | 34.5% (including Medicare) |

| Rental Income | Expenses |
|---|---|
| Income Earned $20,000 | Interest on Investment Loan = $22,000 |
| Rent = 52 weeks x $384.62 | Body Corporate Fees = $2,500 |
| | Property Management = $1,200 |
| | Repairs and Maintenance = $800 |
| | Rates, Water = $ $2,500 |
| | Depreciation = $800 |
| | Insurance = $1200 |
| **TOTAL INCOME EARNED: $20,000** | **TOTAL EXPENSES: $31,000** |
| **TOTAL LOSS INCURRED = *$11,000*** | |

Taxable income of $100,000, would reduce your taxable income to $89,000

Tax break of $11,000 x 34.5% tax rate (including Medicare levy)= $ 3,795 tax saving

Therefore, this would equate to an additional $3795 in your tax refund.

**The second Tax Deduction of the heavy hitters:**

# 2. Superannuation Contributions

A super contribution is an amount added to your super balance. Generally, by law, employers must pay at least 10% of your salary to your super each year. These contributions are called employer contributions or Superannuation Guarantee contributions. Contributions can also be additional payments aimed at boosting your balance, so you have more when you retire. These can be concessional super contributions or non-concessional contributions.

There are essentially two types of superannuation contributions you can make:

- concessional, and
- non-concessional

Concessional contributions are tax deductible and are taxed at 15% in your super fund. Common examples of concessional contributions include:

- Compulsory employer superannuation guarantee contributions, and salary sacrifice.
- Personal superannuation contributions may be claimed as a tax deduction.
- Voluntary additional payments made from your take-home pay, any contribution made on behalf of your spouse (married or de facto), or a government co-contribution, and the Low Income Super Tax Offset (LISTO).
- There are annual caps (limits) on the amount of concessional and non-concessional contributions you can make. If you exceed these limits, you'll be liable to pay extra tax.

## Reportable superannuation contributions

A reportable superannuation contribution is any personal super contribution that you make pre-tax or make then claim a tax deduction on. They are also any super contributions your employer makes for you above the standard 10% Superannuation Guarantee payment. Reportable super contributions can affect income tests for tax offsets, deductions, concessions, the Medicare levy and particular government benefits.

## Maximum superannuation contributions

The government specifies contribution caps for how much you can contribute to super in concessional contributions and non-concessional contributions.

The concessional contribution cap is $27,500 per year for all individuals regardless of age. The non-concessional contribution cap is $110,000 per year for all individuals regardless of age or $330,000 under the three-year bring-forward where you can contribute up to three times the cap at once or at any time during a three-year period.

What does this all mean when it comes to your tax return, the following table is one example of how an additional superannuation contribution(s) can maximise your tax return.

The example table is based on the following assumptions:

**Annual Income** $100,000

**Marginal Tax rate** 34.5% (excluding Medicare Levy

**Employer contribution** = 10% = $10,000

| **Non-Concessional Contribution** | |
|---|---|
| | Employer Contribution $10,000 |
| Maximum Contribution $27,500 | $27,500 - $10,000 = $17,500 |
| Maximum Additional Personal Contribution | $17,500 within a financial year: |
| Reduce your taxable income by $17500 | $100,000 = $82,500 (new taxable income) |
| New Taxable Income | $17,500 x 34.5% |
| **Tax refund would be an additional** | **$ 6037.50** |

The tax system can be confusing and complicated, numberwise is here to help and cut through the jargon. To see if this would be an option for you feel free to access our resources via **www.numberwise.com.au/faq** for more information and helpful guides. If you have any questions, contact numberwise today on 1300 936 656.

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**numberwise.com.au**

**1300 936 656**

SYDNEY
Suite 5
82 – 86 Pacific Highway
St Leonards NSW 2065

ERINA
Suite 3 / 167
The Central Coast Hwy,
Erina NSW 2250