Tax Planning and Strategies

Taxes can eat into the annual earnings. To counter this, tax planning is a legitimate way of reducing your tax liabilities in any given financial year.

It helps to utilize the tax exemptions, deductions, and benefits offered by the authorities in the best possible way to minimize your liability.



Purpose of Tax Planning

- Tax Planning shows the estimated income for businesses and associated individuals for the tax year.
- It lists the estimated tax liability of the businesses and associated individuals for the tax year.
- It evaluates the tax payable by clients before and after the tax planning adjustments.

Benefits of Tax Planning

Few benefits of tax planning are as follows:

1. **Lower tax Liability** – Tax Planning helps to utilize the *tax* exemptions, deductions, and benefits offered by the authorities in the best possible way to minimize the *liability*.
2. **Reduced tax Bill** – It helps to Reduce the overall liability for income *tax*, capital gains *tax*, and any other.



3. I**nvestment** - By knowing the tax liabilities, individuals/business can reinvest funds that would otherwise have been earmarked for tax back into their business.

4. **Get a head start –** For those businesses operating from a trust, tax planning provides a close estimate of the trust distribution minutes well ahead of time, saving the individuals from needing to rush to make a decision.
5. **See the big picture –** Tax planning provides some great insights into a business that allow its owners to assess the larger situation: whether the structure of the business needs to change; understand where operations are occurring; get a sense of the potential profit areas currently untapped or underexplored; find new investment options and decide how best to structure those investments.

Tax Planning Strategies



- **Instant asset write-off**

  Remember to take advantage of the instant asset write-off scheme, which enables businesses to immediately deduct the cost of eligible assets (up to a certain threshold). Ensure the business is eligible for this deduction by checking the ATO guidelines and consider timing of asset purchases accordingly.

  https://www.ato.gov.au/about-ato/new-legislation/in-detail/businesses/small-business-support-20000-dollar-instant-asset-write-off

- **Optimize Superannuation Contributions.**

  Making super contributions to the super fund not only gives opportunity to grow the retirement benefit but it can also reduce the amount of the tax bill.

  Each year, under the concessional contributions cap, individuals are entitled to personally contribute up to $27,500 into their super fund of choice – including the payments made on behalf of their employers.

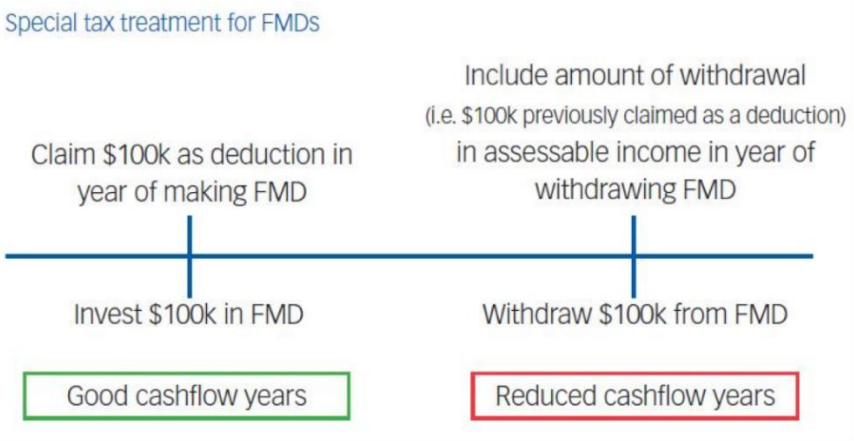
  However, going over the deductible superannuation contributions by exceeding the $27,500 cap will leave the taxpayer to pay an effective tax rate of 49% in tax.

- **Farm Management Deposit**

  An FMD account allows primary producers to make tax deductible deposits during years of good cash flow and withdraw them during bad years.

Primary Producers can claim a tax deduction for deposits make into an FMD account if they meet certain conditions.

They can deposit upto $800,000 into FMD account before the end of the financial year and defer paying tax on that amount until the financial year it is withdrawn.



- **Profit Distribution**

  Income splitting can reduce taxes by moving income to a lower-earning Spouse.

- **Partners Salary.**
- **Make regular donations to charity.**
- **Invest in Income Protection Insurance.**