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Quarterly Tax Planning

If you have just received a cheque for the December quarter you should consider how you use this, as it will have different outcomes for your retirement planning and the income tax you pay.

You may need to keep the money personally, for example to pay personal bills, reduce your home loan, or pay personal income tax. This will add to your personal income and the tax payable for each adult for the year may be 31.5% up to $80,000, then 38.5% up to $180,000, then 46.5% for the amount over that.

A better result would be if you have an investment company. You may deposit some or all of the quarterly profit into the company, and the company may use that to invest for your future. In this case the profit is taxed in the company at a flat rate of 30%. You will also have an opportunity to distribute this year's profit to the company in July (for March quarter) and in October (for June quarter).

You also now have an opportunity to make a contribution to superannuation for you or your partner. This is the best tax result of all. Provided you qualify, the contribution of up to $25,000 ($50,000 for those over 50 years old) is a tax deduction for you and is taxed in the superannuation fund at a flat 15% of the amount contributed. Superannuation is also excellent for asset protection. The main disadvantage is that you cannot get access to this money again until you are over a certain age and are retired. Note that as contributions must be paid into your fund by 30 June 2011 to be deductible in this financial year, your next profit cheque is likely to be received too late. You should check with us or your adviser if you are eligible to make a tax deductible contribution.

In summary, accumulating funds for retirement in a superannuation fund will incur less tax, but access to the funds is restricted until retirement. An investment company will provide more flexibility, as you can access your funds at any time, companies are allowed to borrow to invest, and there is less restriction on the nature of the investments, but it is not as tax effective as superannuation.

This is a broad outline only, as tax planning is a complex area and each persons's circumstances will be different.

Please contact Scot Menzies, Chris Bacher or Paul Messerschmidt if you would like to discuss your options.