Top 5 Tax Planning Tips for Health Professionals

Holmans top five (5) tax tips to help you save tax and build your wealth are outlined below.

TIP 1: Claim deductions for all your cars

Many practitioners do not claim enough deductions for car costs. One strategy is to have the more valuable car in the practitioner's own name and run a logbook showing a high business percentage. A high business percentage is simply the result of maximising business travel and minimising private travel. The other car(s) should be provided as a fringe benefit. Under the statutory method, the amount of FBT is a function of the cost of the car (direct relationship) and kilometers travelled (inverse relationship). The actual business and private percentage is ignored.

The benefit to you will depend on the cost of the car, the normal private use and the total kilometers travelled. Holmans can quickly assess your situation to determine whether there is any benefit in salary packaging a car.

TIP 2: Grow your wealth tax effectively – negative gearing

One of the most sensible strategies to reduce your tax is to invest in negatively geared investments, such as investment properties and shares, that will provide long term growth.

The key is not the deduction, but the asset that you will create long term. A tax deduction by itself is ineffective, because for every $100 you obtain a deduction for, you will only receive approx $47.00 (at best) back as a refund. Effectively, you have wasted $53.00.

However, if the investment grows over time by more than the lost amount, then you have managed to reduce your tax, recover your money and build an asset. For this reason, it is vital that you select the right asset.

In the short term, these investments can assist in reducing your income tax liability. In the long term, they can provide income streams which are not dependant on your time and build assets outside of your superannuation and home. A win, win outcome.

TIP 3: Prepay some costs

Prepaying costs can be a very good last minute planning option. Expenses which you can prepay include interest, accountancy fees and deductible insurance premiums, to name a few.

By prepaying the expenditure, you essentially bring the deduction from a future tax year into the current one.

It's even more attractive if the payee gives you a discount on the normal expense for early payment. Prepayments are limited to 13 months, so there is a limit to the amount you can prepay. It is vital you consult your accountant before prepaying any expenditure, as prepayments in some structures will not be deductible, regardless of when paid.

Tip 4: Use a Self Managed Superannuation Fund (SMSF)

SMSFs are essentially a Do It Yourself (DIY) approach to superannuation. They are an effective tax planning tool for a number of reasons.

Firstly, it can allow the practitioner the flexibility of making last minute contributions prior to 30 June using EFT. In addition, it is not necessary at that time for the practitioner to know exactly what amount they intend to claim as a deduction. Holmans can determine the same at the time we prepare your income tax returns, ensuring we keep your tax to an absolute minimum for the group.

Importantly, it provides the practitioner with the freedom to invest in assets that they feel comfortable with. SMSFs have access to the same investment opportunities as a normal fund (shares, property trusts so-on), but also open other opportunities such as investing in commercial premises for the medical practice.

In addition, you may also explore Transition to Retirement pensions if you are working part time and aged over 55. A transition to retirement strategy is where you sacrifice your wage to superannuation, paying 15% and then draw a pension from the SMSF at a more favorable tax position than the original wage.

SMSFs are not cheap to operate, in what many consider to be the most complex area of tax law. Accordingly, you should seek professional advice on whether this option is suitable for you.

Holmans have a specialised SMSF team to handle any matters regarding this highly complex area.

Tip 5: **Complete tax planning prior to 30 June**

The simplest way to save tax is to see Holmans prior to 30 June. After 30 June, your accountant is simply recording history and has very limited opportunities to save you tax.

Tax planning is an essential part of increasing your overall wealth, as it provides you with the opportunity to actively seek ways to reduce your tax liability and/or increase your wealth through:

- Proactive measures to prevent the adverse impacts of risk areas such as mixed purpose loans, Fringe Benefits Tax, Division 7A, documentation requirements and other risk areas;
- Devise specific income tax planning strategies to reduce company and personal taxes, capital gains tax, and take advantage of important tax thresholds and tax categories (i.e. Small Business Entity Concessions);
- Review options to defer income, bring forward deductions, prepay interest, contribute to superannuation, and invest in tax effective investments;
- Access new budget measures such as the Small Business and General Business Tax Break (Investment Allowance);
- Review the effectiveness of current structures;
- Reduce non-deductible debt levels; and
- Allow you to estimate the up coming tax liability and budget for the same approximately 12 months before you are required to pay it.

Holmans are confident we can save you tax and build your wealth. Contact Holmans to make an obligation free appointment to discuss your particular circumstances.

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It is possible that the above taxation advice may also constitute "financial product advice" within the meaning of the term in the Corporations Act 2001. We are therefore required to advise that we are not licensed to provide financial product advice and tax is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from the holder of an Australian Financial Services Licence before making a decision on a financial product.

holmans accounting & taxation

Maroochydore
Suite 8,
61-63 Primary School Crt,
Maroochydore Qld, 4558
P (07) 5451 6888

Noosa
97 Noosa Drive
Noosa Heads Q 4567
P 5430 7600

www.holmans.com.au