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Q 1: You have mentioned before that a way to reduce your taxable income after you make a capital gain is to salary sacrifice into super. I am 51 years old, an employee and want to sell my investment property which is solely in my name. If I was to salary sacrifice into super, then how do I show that on my 2012 tax return? When will the 15% contribution tax be taken out?

F.W., Canberra

A 1: The strategy you refer to is simply one around reducing your assessable income as much as possible to have any capital gain taxed at a lower marginal rate. However, for this strategy to work effectively you may need to be planning ahead for the sale. For example:

- Assume you are an employee earning a salary of $60,000 for the 2011/2012 financial year and you have no allowable tax deductions.
- You also sell your investment property during the same financial year creating a capital gain of say $100,000.
- Assuming you have owned this property for at least 12 months then half of this capital gain would be assessable, being $50,000.
- This $50,000 would be added to your salary of $60,000 to create overall assessable income of $110,000 with total tax to pay of $30,300 including 1.5% medicare levy.

If, during the 2011/2012 financial year you knew that you would be selling your investment property for a capital gain, then there would be an opportunity to try and reduce the tax payable on the capital gain by salary sacrificing to super. For example:

- On your salary of $60,000 and assuming your employer contributes to super at 9% pa, then you would have $5,400 pa going into super as concessional contributions.
- As you are aged 50 or over during the 2011/2012 financial year then you would be allowed maximum concessional contributions during the year of $50,000. (Note that this higher limit applies as part of the transitional rules that will cease on 1/7/2012 at which time the maximum concessional contribution limit will be $25,000 for everyone regardless of age).
- If you could have salary sacrificed $44,600 into super during the 2011/2012 year then you would have your capital gain of $50,000 added to your assessable salary of only $15,400 (your annual payment summary from your employer will have already reflected your lower salary after sacrifice to super).
- So, total taxable income would be only $65,400 and you would have total tax to pay of only $14,151, which is a saving of $16,149.
- You would be required to pay a 15% contributions tax for concessional contributions to super, so for $44,600 in salary sacrifice you would have $6,690 in tax to pay. (This contributions tax is taken out of the salary sacrifice contributions directly by the super fund provider.)

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- Even allowing for the contributions tax of $6,690 you would still be better off by $9,459 with this strategy.

A Certified Financial Planner can help you understand whether this kind of strategy would work for you and the services of a registered tax agent would be useful to make sure you understand and calculate your capital gain correctly for planning purposes.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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