Morrows Knows: Tax Planning 2014

Prepayment Strategies to Consider

Each year we have the opportunity to bring forward some tax deductible expenses such as interest payments on investment loans or income protection premiums. * These are really tax deferral strategies and it is always best to get advice before acting.

1. Prepay investment loan interest

When you borrow money to make an investment that will generate assessable income (often called 'gearing'), you're generally entitled to claim a tax deduction for the interest on the money borrowed.

The interest may be:

- less than the income earned – positively geared
- equal to the interest earned – neutrally geared, or
- greater than the income earned – negatively geared.

The interest you pay is generally tax-deductible in the year it falls due. However, if you have a geared investment portfolio or property in your own name, you may be able to prepay up to 12 months' interest on the loan and bring forward your entitlement to the tax deduction to this financial year, depending on your personal circumstances.

Tax rules are complex and may change over time, so you should consult your Morrows advisor regarding the consequences of this strategy.

Prepaying interest may allow you to bring forward a tax deduction from the following year into the current year – potentially reducing your taxable income this financial year.

Additionally, by prepaying interest you are locking in the interest rate you pay for the following year, which gives you greater certainty around the cost of your investment. Some lenders also offer a discounted rate when you prepay interest.

It's important to remember that to receive these benefits, you need to make the prepayment before the end of the financial year. Furthermore, once the payment is made, you cannot 'claw back' any interest payments if the account is closed or repaid.

2. Prepay income protection premiums

Protecting your income is important to maintain your quality of life, and provide support for your loved ones, if you get sick or injured. In fact, statistics show that there is a 1 in 3 chance of becoming disabled for three months or more before the age of 65[1]. If you are unable to work at your full capacity due to sickness or injury, Income Protection can provide a regular monthly benefit to cover mortgage payments and other expenses while you recover. Typically, Income Protection can replace up to 75% of your monthly income.

At this time of year, if you have or are considering income protection insurance, you can prepay your premiums for up to 12 months. This may allow you to bring forward a tax deduction from the following year into the current year – potentially reducing your taxable income this financial year.

It's important to remember that any benefits paid will be assessable at your marginal tax rate, whether you pay for the cover inside super or out.

You should seek advice before you decide to take out income protection insurance or alter an existing policy. Your Morrows advisors can help you select a waiting period and benefit payment period that best suits your needs and circumstances.

Disclaimer: *The information provided in this communication is general in nature and not intended to be advice. You should contact our office for further information or for a tailored solution to your needs.*

How can Morrows help?

Morrows Private Wealth can determine your eligibility for the Age Pension and Pension Bonus and provide strategic advice to maximise your entitlements. Seeking advice in the lead up to your retirement is particularly important as your assets and income can be structured effectively to see that you qualify for the Age Pension and maximise your entitlements.

Please contact us on 03 9690 5700 or via **mpw@morrows.com.au** for any assistance.