# The Australian Finance Podcast Episode Transcript

**Episode**: 🤑 Australian tax explained & maximise your tax refund - starter pack
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**Speakers**: Kate Campbell & Owen Rask
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### Episode transcript:

Owen:
Kate Campbell, welcome to this episode of the Australian Finance Podcast, where we're talking tax.

Kate Campbell:
Yes, something that I just finished sorting out for myself, thankfully.

Owen:
Yes. There are only two things that are certain, that is death and taxes, and taxes make up a huge part of personal finance. As investors, we often don't think about tax until further down the track. And as people that are just starting out, we think, "Oh, what's tax?" It doesn't really matter. But Robert Kiyosaki in his book, Rich Dad, Poor Dad, said if you are paying tax at 30% of your income, which a lot of people that listen to this would be, you're effectively working January, February, and March every year just to pay your tax bill.

Owen:
So if you think about that, three months of your life every year is just to pay for tax. So it makes sense to focus on it, see how we can minimise it. We don't want to say avoid because avoiding tax is actually a rule, you're not allowed to do that, but you can minimise it.

Kate Campbell:
Yes. And you can maximise your tax return or refund. And there's also some things that we really want to bring to light because if you are a new investor and you're just getting started, if you go head first in and make all the mistakes like we did and not think about tax at the start, it can become quite an onerous task come tax time because suddenly, you actually realise, "Oh, I need to account for all of these things I bought and sold during the year. Oh, I had a dividend, what have I got to do with that?"

Kate Campbell:
So if you keep good records from the start and you have a good filing system for all the paperwork that you're going to get sent as an investor, it'll make it so much easier at tax time and you or your accountant are going to love you for it.

Owen:
Yeah. And the thing is that it doesn't actually take that much effort to do it properly, you just need to know what's what, who's who in the zoo, and we're going to break that down. So we're going to talk about the income tax system, how it works generally. And then we're going to talk about how maybe you can do some things as an investor, or even if you're just a person that's earning PAYG, there are certain rules that you should be aware of that differ between individuals, companies-

Kate Campbell:
And depending if you're an Australian resident or not for tax or otherwise.

Owen:
Yeah. So there's so many different ways that you can cut it. We've put links in the episode show notes. And what you should do if you're a foreign tax resident or if you're a person that's not an Australian citizen or resident, you should check those out because the rules may be different for you. Also, if you're a tradie or a ABN holder and you invoice people, the rules will be slightly different when we talk about PAYG. When we say PAYG, that is basically for someone that's an employee, so casual, part-time, full-time, etc. Kate, give us the basics of the Australian tax system.

Kate Campbell:
Okay. So the first thing I want to point out is the ATO website's actually really good to check out because it has so many great resources and it's actually explained really well. With tax, most of us, we're going to be employed maybe on a full-time basis. And instead of when we get our salary, it might be $50,000 including super, or excluding, whatever's easier to work at here. Unfortunately, not all of that money is going to be paid directly to you from your employer, your employer's actually going to withhold some money. And so when you get your first paycheck, you might have a look, maybe even if you're at a part-time job right now, have a look at your paycheck and you're going to see something there, titled tax or something of that like.

Kate Campbell:
And that's money that your employer takes out of your paycheck at the appropriate rate, depending on what you're earning, and we'll have a link in the show notes to work out your tax bracket and how much you have to pay in tax per dollar based off your income. But the employer puts that money aside and sends it to the Australian Tax Office on your behalf. And that money is used by the government to run everything from schools, to hospitals, to our border security, defence, those amazing public libraries, roads. So all of this money goes to running the country, even paying the politicians.

Owen:
Yeah. And that's it. So basically, the government, you pay tax through your employer. If you are an ABN holder or you're a tradie or you work on contracts, let's say you do some freelance stuff, you will have to withhold your own tax. And the rate that you withhold your tax depends on how much you earn. Kate mentioned tax brackets. Another way to talk about that is something called a marginal tax rate. The way tax works in Australia, some people have this misconception that there's a 30% tax rat if you earn, say, $70,000.

Owen:
The way it works is we call it progressive, progressive meaning that it's like buckets. Once you fill up the tax free threshold, which is no tax is paid on the first, say, $18,000 of income. Then that tips over if you earn more, it tips over into the next bucket, at which you might pay 20 or 25% or 15%, whatever the tax rate may be at the time that you listen to this. If you earn more than that tax bracket, then it tips over into the next bucket where you pay say 35% or 40%. And then the final tax bracket, let's just say it's 50% for round figures, it tips over into that bracket.

Owen:
And then if you keep earning from that point, you still pay 50 cents on the dollar. So it's not like if you earn a certain amount, that you are paying tax on the whole amount of your income, it's like on a sliding scale, you always fill up the buckets before you pay the higher amount of tax.

Kate Campbell:
Yeah. And we're not going to tell you the individual income tax rates on this podcast, because they actually change quite a bit.

Owen:
They change a lot.

Kate Campbell:
And they're often used as a political tool coming up to elections where different parties will say, "Oh, we'll increase the tax brackets for different earnings amounts." So always have a look and find out what your individual tax rate is or ask your accountant, because it would also depend if you're earning income outside your day job and things like that so they'll be taken into account.

Owen:

Yeah. So there are other things that typically happen. If you can imagine that every single individual in Australia has one tax return, that's basically all you need to remember. So you will have your own tax return. Now, what goes into that is a bunch of different types of taxes that go into one. Whereas overseas, you might pay tax as you go or pay tax when you purchase something, here in Australia, the tax office relies on you to lodge your own tax return. The tax year ends at June 30th. So for example, let's say that you had a big capital gains that you're about to make, you're about to make a big profit on some investment that you've made.

Owen:
Now, if you are sitting there and you're thinking, "Okay, it's June 29th. I could sell today, but then I would have to pay tax in this tax year, or I could wait two days and on July 1st, sell it then, then I'll record the tax in my next financial year." Some people get really creative and they might say, "Next year, my tax bracket's actually going to be lower. So I'll hold onto this and next year I'll sell my investment for a gain." So just remember June 30th is when the tax year ends and July 1st is when the next one begins. So that's different to the calendar year.

Kate Campbell:
Yeah. And it's mostly an honest system that you put in that data correctly. Even though the ATO is actually getting quite good at pulling in the data from all of your dividends and various investments and even bank interests now, but if you're like me, you've got a few different bank accounts earning interest and you've got a few different investments in different spots, it often doesn't really like calculate it all correctly, so you still have to go for a manually look at each thing. But for most employees that just have the regular nine-to-five, maybe they've got one or two investments, maybe one savings accounts. It's usually quite simple and straightforward to fill in that tax return.

Kate Campbell:
And then if the ATO reviews it and has any issues, they'll get in contact and occasionally they may might do an audit of your tax affairs. But for most people, like I've never had an audit, I don't know if you have?

Owen:
No, I haven't. No. Should we put that off the record or should we... Please don't look at us.

Kate Campbell:
Yeah. Maybe, maybe that would start something. But they generally know what's expected. So if you suddenly return something out of the ordinary, that might flag something in their system. They've got very clever systems that will flag things depending... If you suddenly you don't declare any income in one financial year, they might go, "Hey, what's happening here?" And some things like that.

Owen:
So one way to think about this is, this is the way it was explained to me, is that let's say you claim something, let's say you claim like office equipment, there are certain rules that apply for

specific deductions for a home office. But let's say for example, you've claimed $10,000, Kate, and I've got the same income as you, I'm in the same industry, that's what the ATO sees, yet I only claim $2,000. If they got all of the people that were in our industry, and they said, "The average is $2,000 and here's Kate claiming $10,000," that's going to raise a red flag.

Kate Campbell:
Yeah. Can I substantiate that claim? Do I have any reasons? Do I have the evidence? Though sometimes like when you're providing charitable deductions, that we'll talk about in a bit, you don't have to supply the evidence when you submit the tax return, but if they ask, then you might be asked, "Oh, can you actually demonstrate that you donated $1,000 to charity this year? Where's all the receipts?"

Owen:
Yep, that's it. So the ATO system, just in recap, it goes to the year end of June 30th. It's an honesty system, but they can pull you up and say, "Hey, you need to verify that you've actually spent this money, and you need proof of purchase." That would be a tax receipt or it would be something in your bank account to show that you've actually spent the money and it was you that spent it so you can't claim someone else's spending. One common myth that people have is, there's a husband wife and the wife might spend some money and the husband thinks that he can claim it on his tax return, it's not the works.

Owen:
So there are some rules. And just as a general rule of thumb for deductions, it's got to be spent, so if you try and claim it against your tax taxable income, that thing that you spent money on, it has to be connected to you earning more money. So it can't be necessarily just like, I go to the gym and I make $100 a year in Instagram revenue because I sell photos of myself, I don't know, whatever you're doing.

Kate Campbell:
I hope not, Owen.

Owen:
If your actual income was from being a carpenter, you can't claim a gym membership, because even though that might help you with your other income, it's not related to the actual income that you're paying tax on. So it's got to have a genuine connection there. It's called a nexus in accounting terms. There has to be a reasonable nexus between the spending and your income. So Kate, one thing that people will always come across is tax file numbers, otherwise known as TFN. What does that stand

Kate Campbell:
Yes. So that's tax file number, so that's the IAD that you... When I was in year 10 used to have to fill in a form and send it off, but now I'm pretty sure you can just get it online or by calling up.

Owen:

Yeah, probably. I'm sure you can.

Kate Campbell:
We created ours many years ago now, but this number follows you around. And so when you lodge your tax file number, when you get a new job, when you set up a new brokerage account, maybe like your stake or your pillar account, they're going to ask you for your tax file number. And the easiest thing to do is to provide that tax file number. And then it makes everything easy at tax time. But it also means the government can link everything you have together, even your super fund.

Kate Campbell:
And that's how, if you go into your myGov website, you can put in your tax file number and find any loss super funds. But, the government can also use your tax file number to tell you if you've got any lost dividends. There's lots of different registers for that. So it is a handy number to have. And if you are investing and you don't provide your tax file number, the provider may withhold tax on your behalf, and then you have to sort that out when you do your tax return because they don't know what tax rate you're on.

Owen:
So if you've ever heard in the movies social security number, that's a US thing. In Australia, we have a few different numbers, we have Medicare numbers for healthcare, and then we have tax file numbers for tax and everything to do with finance. So basically, the closest thing we've got is our tax file number. That follows you around, as Kate said, for life. So you want to know what that is. If you don't know what that is, you should find out. And if you don't have one, like if you're a younger person and you maybe haven't explored a tax file number, head to the ATO website.

Kate Campbell:
And I'll just point out, because someone mentioned in our Facebook community that they're a bit confused whether a tax file number and a holder identification number, a HIN, were the same thing, and they're quite different. You'll see both of those terms when you're investing, because when you set up a brokerage account, they'll ask you for your tax file number, but what you get issued when you create a brokerage account is a holder identification number and that is what your shares are held under. But you can have lots of different holder identification numbers if you have multiple brokerage accounts, but you just have one to a file number.

Owen:
Yeah. With all of these numbers, it's pretty good to keep the numbers private.

Kate Campbell:
Yeah. If you know the stock code or the ETF code, you know the holder identification number, you know the postcode, you can see someone's holding online. It might be read only, but-

Owen:

Yeah. So the tax file number is one that's given to you by the government. You'll use it if you ever go into your myGov account and they link inside ATO, if you haven't done this already, it links your super via the ATO app within myGov. And you can also link Medicare in there. And if you're part of like veterans affairs and all that stuff, you can go in there too. So myGov, you need the tax file number. You want a tax file number whenever you do any work. There is two other numbers that you should know about as it relates to tax, and the two numbers are an ABN, which stands for Australian Business Number and ACN, which stands for Australian Company Number.

Owen:
An ABN is applies for any business, so any business at all, whether you are a sole trader or whether you are a company, but a company number, an ACN only applies to companies, obviously. And the key difference is that a company is its own legal entity, so that means a company can issue you with receipts, a company can open bank accounts, and that's why a company is different to a business.

Kate Campbell:
Yes. An ABN is something you can create in a few minutes on the government website, but an ACN takes a lot more time to establish that entity and there's registration fees. You usually know if you've got one of those set up.

Owen:
Yeah, you would. And the thing is, so if you're a sole trader, when you give your invoice to someone, let's say, it's just an example, you're a carpenter who does work for someone on a weekend, and you want to give them an invoice, you should put your ABN on that always and your business name. Now, your business name is not the same as like copywriter or that, it's just your business name, so you should have your business name and an ABN on that. And you can register both of those online. It's about $70, I think, for three years to get an ABN.

Owen:
If you're doing any type of contracting work, it makes sense to have one because you can't really skirt the rules. So that's basics of it. We need a tax file number, it's different to an ACN, it's different to an ABN. Let's move on. So, who needs to lodge a tax return?

Kate Campbell:
MOst people who are working more than part-time will need to lodge a tax return in Australia. If you've had some dividend income during the year, that might be relevant, if you've had tax withheld from payments, then that's probably relevant to you too. And there's some other rules about foreign residents and when they have to lodge a tax return and when they don't. And if you're are here on a visa, there's different rules again, too. So I've included the link for the ATO's website there of exactly who needs lodge a tax return. And they have a really helpful tool you can go through, answer a few questions, and it spits out, "You should lodge a tax return."

Kate Campbell:

And the ATO website also gives you a process to lodge a notice of like that fact that you're not going to do a tax return. So if a suddenly one year you didn't earn any income that was relevant, you can also submit electronic statements saying, "I'm not lodging a tax return this year, I didn't earn above the threshold," blah, blah, blah.

Owen:
Okay. So basically anyone that's earning a decent amount of money, over say $18,000. If you work for an employer or if you even do your own stuff under an ABN, you should consider lodging a tax return. Remember that you've typically got till the end of October, I believe it is. I could be wrong on that one, but to the end of October. Let's say that the financial year ends now or the tax year ends today on June 30th, you've got a few months before you have to get the lodgement done. After that time, you can go to a financial... not a financial advisor, a tax accountant, and they can extend the deadline for you.

Owen:
So if you go through a tax accountant and they can extend the deadline for you, but you still have to be working through that. If you have a massive tax bill outstanding, you can also do something like, if you're worried about that, you can also call the ATO. The ATO's not to try and like rake you over the calls. It's not their job, their job is to collect tax revenue.

Kate Campbell:
And they often can work out payment plans,

Owen:
Yeah, lodge your payment plans. And they'll work with you to determine if or how you can repay them.

Kate Campbell:
Like I had a friend in the past who, when she started a new job, and that's probably something we should mention, the tax declaration form when you start a new job, you'll tell your employer, "These are my tax details, I'm claiming the tax free threshold." Then you also tell them if you have a study debt, a HECS-HELP debt. And in this case, I don't know if she didn't tick it, but it didn't get done right in the system, and then the employer didn't put aside any money to pay her HECS university debt. And so she did have a more substantial financial tax debt at the end of the financial year that she was really surprised about so she wasn't prepared for that.

Kate Campbell:
And so the ATO actually let her set up a payment plan to pay this off over multiple months. So it wasn't the headache it was going to be because it was able to be smoothed out.

Owen:
That's an important point. We talk now about the different types of taxes that you'll pay. The one that we've talked about most is income tax. So these all, maybe with the exception of stamp duty, which it's a bit of a different one, but the main taxes that you pay all come into that one tax

return that you do. So remember how I said everyone does one tax return? All of these different taxes fall within that one tax return. So again, it's different to say a business or if you're overseas where you might lodge different taxes at different times, there's one tax return and includes everything.

Owen:
So the first type of tax that people pay is income tax, and that's most commonly associated with you earning a salary.

Kate Campbell:
So for most people, if they don't have any investments yet or anything on the side, it's just going to be that nine-to-five income. And for most cases, the employer will have already put that money aside, sent it to the ATO. And at the end of the financial year, you'll come out pretty much even. You might have a small refund if you've had some deductions. It's meant to work out pretty close to you having no refund.

Owen:
Yep. That's what it's supposed to be.

Kate Campbell:
But also in income tax, you'll need to include things like dividends if you've been paid any from your investments during the year, maybe you started driving around for Uber Eats on the side, you did some Airtasker, you had some side businesses, really just thinking about any source of income, you're going to have to declare that and they'll work out. If you've earned quite a bit extra on the side, you may have to pay some tax come the tax time.

Owen:
And so that all falls in under this thing called income tax. The next type of tax is a little bit complicated for most people, which is capital gains tax, otherwise known as CGT. So capital gains tax is basically when you make a profit on your investments. The easiest way to explain this, you buy an investment property for $500,000, you sell it for $600,000. Therefore, there's $100,000 of a capital gain. So $100,000 goes into your tax return. And that's the basics of it. And it could be for shares, it could be for collectibles. It could be all types of different stuff, it can even be for vehicles as well.

Owen:
You've got to understand that there are two types of tax going in here, one is income tax and the other one is capital gains tax.

Kate Campbell:
Yeah. And some people do come unstuck because they might have invested $1,000 in an ETF and then sold it for $2,000 and then immediately gone and spent that entire $2,000, and then finding out at the end of the financial year that they had to pay some capital gains tax on that $1,000 gain they made. Another thing to note in Australia, if you haven't actually sold those

shares or ETFs or anything, you don't have to pay capital gains until that sale is made. Whereas I know there's been some like debate in the US recently that there should be a wealth tax on unrealized capital gains of just like, "Oh, suddenly Elon Musk has billions of dollars and he's not had to pay tax. That should be taxed."

Kate Campbell:
But in Australia, it's just, if you make a sale of your shares or your ETFs or your investment property. You don't have to pay because it could go to zero, you never know.

Owen:
That's it. So this is basically, what Kate's referring to is people say that they're cashflow poor, but they're asset rich. So this is where people make investments and those investments go up in value, and all of a sudden that, the value of that investment is worth a lot. But they haven't yet sold, so they don't have that money in their bank account. The amount of people that Google person's name, net worth. We were joking about this before, it's the second the most Googled thing under my name. So if you say like Jeff Bezos, founder of Amazon, people look up his net worth, and I don't know, let's say it says 150 billion. People think that he has 150 billion in his bank in-

Kate Campbell:
That he could just do whatever he wanted with.

Owen:
He definitely does not. So I would say that, I don't know his financial situation, but I'd imagine that 99% of his money is in Amazon shares. And so he just has that against his name, they've gone up in value, that's how he's got wealthy. And so when he starts to sell them, that's when he'll start to pay tax. And so that's the important thing to remember, is that you really only pay this tax, capital gains tax, when you sell. There are some exceptions to certain rules, but that's the gist of it.

Owen:
I'll give you a special, not very inside scoop, but it's a very important thing for long term investors like us, Kate. If you hold your investment for more than 12 months, the amount that you pay for capital gains will be cut in half. So the key is hold investments for the long term and you pay less capital gain tax. And that's to reward investors for being patient and investing over the long term, because even the government knows that this is a good way to build wealth.

Kate Campbell:
So they're trying to reduce the incentive for you to turn over your portfolio on a regular basis.

Owen:
Yep. There's one final thing here, which is a bit different for people that we've got here, which is stamp duty. Stamp duty is just when things are transferred, and that typically goes to the state government. So this might be if you buy a new car and you see, when you fill out your transfer

or registration, you've got to pay like say 4% or 2% or whatever it is in your state. That's stamp duty. Also, when you buy a house, you have to pay stamp duty. So that's another thing that you pay. But that typically is paid at the time that something happens. So most people don't need to worry about that every day. So the two big ones are capital gains tax and income tax.

Kate Campbell:
Yeah. They're the main things you'll need to know as an investor starting out. And I guess the next thing is, the government to make you do and incentivize you to do a whole range of things, comes up with all these really complicated tax incentives and rights. Our tax manual is so big. I think you were looking at it last year, it's huge.

Owen:
Yeah, it's huge. It's like Bible papers. You can see through the paper, it's that thin.

Kate Campbell:
And it updates every year. One of my friends who's an accountant says they have like a whole week long update every year where they have to get trained on that year's tax stuff so they make sure everything's right for clients, because it just changes that often. And there's so many different incentives. If you go down the rabbit hole, there's so many weird incentives to do different things. But I guess we'll talk about some of the main ones that are worth knowing about getting started. And the first one I probably want to talk about is making super contributions and that the government really wants to incentivize you to contribute extra to your super fund, whether that's through salary sacrifice or through making a personal contribution and then claiming that back at tax time, because they have a lower tax environment inside the super fund.

Owen:
Yeah. So there's two things to this. The first is that inside super, you pay less tax. So let's say your tax rate is 30%, so every extra dollar that you make, you pay your 30% tax. Inside your super, you're only going to pay 15%. So meaning that for every extra dollar that you earn inside your super, you pay 15 cents of tax to the government. So that means you keep more in your super fund. The other way that they make it good for you to put money into super is if when you put your money and you claim a tax deduction. So let's say you put $2,000 in because you've got a bonus from work and you want to just put that into your super, you can claim it. That is a tax deduction. So that obviously benefits you. Catch is, Kate, what's the catch if you put your money in super?

Kate Campbell:
Well, apart from during the odd blip during COVID, you can't take that money out into retirement and it's locked away. So that's always something to keep in mind. There is that incentive, but also it's not easy to access.

Owen:

Yep. So the next one is the Medicare Levy Surcharge and I just want to be real, it's different to the Medicare levy. So I don't know, I feel like they should have called it something else. I understand why they named it this way, but there's the Medicare levy, which everyone has to pay.

Kate Campbell:
Yeah. And you'll probably see that on your tax return.

Owen:
Yeah, you will. And you'll see it when you use, we have this income tax calculator at Rask. I put it on there just so people know, but there's another thing called the Surcharge. And the Surcharge applies once you earn a certain amount of income. I believe it's $90,000 at the time of recording, this could change for singles or $180,000 for couples or families. And so what that means is beyond that point-

Kate Campbell:
And you also have to be over 30, is it?

Owen:
That's for the Lifetime Health Cover loading? So that's another.

Kate Campbell:
See, it's already that confusing. I'm mixing it up.

Owen:
We're at 0.2. So if you earn over 90 for single or 180 for families or couples, what you get slugged with an extra percentage. And that can be avoided if you have health insurance. It has to be legit health insurance, but you also have to hold the health insurance for the full year because it's based on the number of days. So let's say you get halfway through the year, like, "Oh geez, I'm going to earn $92,000 this year, I should really get health insurance." And then you go to do a tax return, you're like, "But I still pay the Medicare Levy Surcharge for half of the year." And the accountant will say, "Yes, because it's based on the number of days you have cover for."

Owen:
So whenever you hear Medicare Levy just think it's your way of paying for our free public health system. Kate, what about if you own your own home?

Kate Campbell:
Yeah. I haven't experienced this, but oh in my one day, if you have a primary residence, it's the place you're living in most of the time, it's actually a capital gains tax-free asset when you sell it. So if you buy your little apartment in Sydney for 500,000, and like 30 years later, you sell it for like a million or two, these crazy stories you hear about in the paper, you don't have to pay capital gains on that, as long as it's your primary residence.

Owen:
Yeah. That's it. The capital gains tax on your primary residents is actually super powerful because what you can do is you can get a massive loan, which is what a lot of people do. We're not advocating for this, but you can't get a massive loan, go and buy a property, and then you can hold it for say 10 or 20 years. This is how the generation before us got really wealthy.

Kate Campbell:
And you keep renovating your home, you add the pool, you just keep adding to it. And then suddenly, it's this massive asset that you sell and you don't have to pay capital gain tax on.

Owen:
Yeah. Whereas if it was an investment property, you would have to pay the tax on what you made from that asset. So the principle price of residents is actually a super, super impressive wealth creation vehicle. That's why a lot of people chose to own their homes, and over the long term, they can now retire wealthy. The catch is a lot of the people that are now retiring only have their home as their asset, or they've got a little bit of super, but they didn't really invest and build wealth outside of those two things. So now they're in a very unfortunate circumstance where they have to sell the family home.

Kate Campbell:
That's a rich cash flow poor again.

Owen:
So they have to self-fund their retirement. The next thing is the capital gains discount.

Kate Campbell:
And you mentioned earlier.

Owen:
Yes, I did mention this earlier, the capital gains discount. So if you hold an investment for more than a year, you get a discount. Basically the way it works, if we go back to my example of an investment property, if the investment property goes from 500 to 600, that's $100,000 gain. If you've held that for more than a year, you only get taxed on $50,000 worth, the half of that. You still pay tax on it, but only on half. So again, let's be long term investors. Kate, what's your best definition of franking credits. This is a slightly different thing altogether.

Kate Campbell:
Oh gosh, I'm terrible to explain franking credits, you go for that.

Owen:
Okay. Franking credits are like tax credits, just think of them like tax credits. You'll hear about them in investing, they were a very popular thing at the last election. It's not surprising that the person that suggested this is now not in politics, because the reality is a lot of retirees and

wealth accumulators like people in the FIRE movement love franking credits because what happens is when you have shares in a company or your ETFs, you'll get your dividend with cash, but you'll also get something called a franking credit attached to some of them.

Owen:
And what happens is that money goes to the ATO and it's registered that Kate is an owner of these shares that pay to franking credit. Then when you do your tax return, you can use those franking credits to offset the other tax that you are going to pay. So then you can end up getting more instead of paying tax come tax time, you can actually get a refund because of franking credit. And why do these things exist? Because this is like a company when it earns a profit and if you own the company, so let's say you own a company, if the company's paid tax, you shouldn't be then taxed again at your income tax level because you've already paid tax. Your company has already paid tax.

Owen:
So what the franking credits does is it avoids double dipping. That's what it does. And that's why-

Kate Campbell:
But when you work for a company, your employer pays tax and then as an individual, you also pay tax on your income. It's just franking credits apply to this very specific thing.

Owen:
But to be fully honest, if you invest in Australian shares or say like the A200 ETF or the VAS from Vanguard ETF, you're going to get franking credits. And over the long term, 1% here or there might not seem like much, but over the long term, that's going to be super powerful for your wealth creation. So franking credits definitely help.

Kate Campbell:
And when you get your dividend statement or your distribution statement from BetaShares or Vanguard or whatever company you own, it'll say in the dividend, will also say next to it, franking credits and it'll have an amount there. And so make sure when you're filling in your tax return or getting your accountant to do it, there'll be actually a separate section to put in the franking credits. So you don't want to forget to put that in if you have some.

Owen:
For sure. Kate, there are two more things here I'd like to pick your brain on. Can you tell us what these... These are often very common for people, so tell us a little bit more about these.

Kate Campbell:
The next one's self-education expenses. So the government incentivizes you to spend money on upskilling in your area of work, and you can actually deduct those costs, but the catch is it has to be related to what you're already doing. So working in finance, I can't go off and do a horse writing course and say, I want to be a horse writing teacher and deduct that because it

has nothing to do with what I'm currently doing. Even though it could be leading me to another career, it's not directly relevant to me earning more in my current job. So this is worth looking at the ATO website of what they define this and talking to your accountant.

Kate Campbell:
And so you might be just working, you might want to do a management course, and that might be directly related to you earning more income in your current place of work, and you might be able to deduct that. And it's also worth asking your employer if they'll pay for that, because that's even better, because you don't have to pay for it to begin with.

Owen:
Yep. This is really good because if you're wanting to get further ahead in your career, you can effectively subsidise yourself by tax incentives or by your employees' budget for this. So make the most of that. What about this one, Kate? I feel like everyone puts this on their tax return, charitable donations.

Kate Campbell:
Yeah. The government also incentivizes you to donate to Australian registered charities, which you can double check, as long as you donate more than $2.

Owen:
Yeah. I think it's two bucks.

Kate Campbell:
You've probably seen like when you've bought a puppy before for Remembrance Day, it will say, "This is like a tax deductible donation in Australia." And so all of that money that you might have donated to the Smith Family or The Life You Can Save or any registered charity in Australia, you can round up all those receipts, calculate it all and claim that as a deduction as well. So that incentivizes you to donate to charities. You just have to make sure they're registered. So I don't know if there's a minimum amount, if you just donated $10 to someone without a receipt you can claim some of that.

Owen:
Typically, I believe I could be wrong, the way that this works is that it's typically on good faith to a certain amount. Once again, don't be going claiming, "Oh yeah. I donated $2,000 to The Life You Can Save." And then they'll be like, "Well, where's your receipt?" And you go, "I don't have one." That doesn't fly. So what you want to do is you want to make sure you keep your receipts, just take a photo of them with your phone. That's pretty simple.

Kate Campbell:
And most of them email you.

Owen:
Most of them email you.

Kate Campbell:
Like things anyway. Yeah. I haven't heard of anyone being questioned over it, but I think maybe if you made quite a significant donation-

Owen:
If you did enough.

Kate Campbell:
Well, sometimes it can bit more complicated if you donate an item that had a value, that might need an accountant to just double check everything there.

Owen:
Yeah. Good point actually. The final one is working from home expenses. We covered this with Jacob. If you go back to June, 2021, you'll see that Jacob from PWC came on the show and helped us understand what the working from home expenses were. So during COVID, if you're still filling out those tax returns, during COVID that government introduced big changes for working from home allowances. They basically gave you two options. One was, you can just do like this simplified version where it's just a cent per hour, and the other one was where you actually calculated all the stuff you spent money on.

Owen:
So depending on your circumstance, you would choose one of the options. But the basics of it is if you build out your home office, like let's say you get a laptop purely for work or you pay for your internet and internet is used 80% for work, etc, you can work out how much of it is work use and how much of it is private use. And you can make deductions against your income. Obviously, this is for people that earn income. If it's just a hobby or something that you're doing on the side, you're not going to be able to claim it because it just doesn't make sense. You have to earn money from the things that you're using for your work.

Owen:
So really, really powerful. If you think about these, just to recap them for people that maybe just went over your head because you're listening while you're, I don't know, putting the kids to sleep or something, we've got super contributions, Medicare Levy Surcharge, which is the extra bit on top of that 90,000 or 180 for couples, owning your own home, when you've got no tax on your primary residents, capital gains tax discount, own an investment for more than 12 months and you'll pay less tax. Franking credits are tax credits stored at the ATO for your BetaShares, A200 or your VAS or any of your share investments like your BHPs and Telstras, self-deductible...

Owen:
Let's try this again. Self-education expenses. Must be related to your work. Charitable donations for anything over $2, keep your receipts and working from home expenses. These are fantastic ways to minimise tax and maximise your long term wealth. Fantastic. There's heap of information that always come on.

Kate Campbell:
These are all ways the government is giving you to maximise how much you get back or minimise how much you actually pay. And they're all legal ways as long as you actually follow the guidelines and make sure you're claiming correctly and within the limits.

Owen:
You might think, "O, it's 100 bucks here, a 20 bucks there," but at the end of the day, that might be $1,000. It is 1,000 bucks in your pocket.

Kate Campbell:
Can get you started investing, it can help you pay off debt, get you started with your emergency funds. So those things add up. And so for me, I'll just have an email in each of my inboxes called tax, and just anything that's somewhat related, if I make a donation during the year, if I get a dividend, I just drag all those emails to that folder, and then I come to that later in the year. And one of the other things that we often get asked is, should you get an accountant? Should you just do it yourself? And I'd say, there's three levels.

Kate Campbell:
You could do it completely yourself, which is by the government portal, which if you're just like a vanilla employee, you're just working nine-to-five, maybe you've got some interest or on your up money account, maybe you've got one dividend from your A200 ETF, that's quite straightforward to do yourself. Maybe you want a bit of help for the first one so you learn how to do it, but there's a lot of information on the ATO website to help you. There's also middle tier where it might be 50 to $100, you can use a company's online platform and they'll have an accountant review you it. So you do the ground work and then you have a professional review to make sure you've done everything right, and someone you can ask questions to.

Kate Campbell:
And then there's the third tier where you actually a full service tax accountant that's fully qualified in this. You don't quite give them the shoebox, but you give them maybe folders full of all of the different information for your tax return. And then you just say, "Here, work it out, ask me what questions you have. Are there any documents missing?" And they do it all for you. And that might cost you a few hundred dollars.

Owen:
So it might be anywhere from say two to $500 depending on your situation. I'd typically take draw number three, because it is easier to have an accountant when you have a business and when you have investments, it does get complicated. What I would say is, regardless of your situation, keep good records. We'll talk about this in just a second. But Kate said, you don't hand him a box of receipts. That is so silly. Unless you get paid more than $200 an hour, do it yourself. Get a Google Sheet, it's free to get online, go Google sheets, create spreadsheet that's got few in one column, put it all in there.

Owen:
Another one that's got self-education, another one that's got charitable donations, and then give that to your accountant. So they don't have to look through all your stuff. It's going to save them hours, which then saves you hundreds of dollars. Super easy. You are right, there are like the light versions. We spoke with Jacob from PWC, this is not an endorsement, but they have a light version. I know a lot of the big accounting firms do it like H&R Block.

Kate Campbell:
There's like FinTech. There's small platforms popping out.

Owen:
Heaps, that sort of stuff, ATO. If you use the ATO Prefill Service, which is available through myGov. Basically what happens is anywhere you put your tax file number, the government's going to know about it. So if you give your share registry, so let's say you go to link market services because you own A200 and you get this letter in the mail that says, "You should put your tax file number in at linkmarketservices.com," whatever it is-

Kate Campbell:
You should because otherwise, when you get paid your dividend or distribution, you're going to see something there under the withholding tax line. And then I get to the end of the financial year, I've got about three or $400 of withholding tax because you haven't filled everything in properly, because you are slack on your admin. And so you want that money in your pocket straight away because you can invest it and you can do all sorts of things with it. So just filling in the boxes, doing the admin at the start. We talked about our paperwork episode, now share registries of making sure you do everything right at the start with your bank account details.

Kate Campbell:
So they're not just holding your money and then sending it to the ATO because it's unclaimed. So just doing those things like admin. When I do my tax return, I will put everything in Google Drive folders, label them. Now, I've got a system I can copy that same file layout each year. I'll just drag all of the documents in, I'll have a Google Sheet listing everything out. And then I send that to my accountant because it's a lot of hassle for me now as an investor who has a few things going on to do it all myself.

Owen:
Yep. There are some great resources in our back catalogue. The most important one for investors is the share registry's episode that we did.

Kate Campbell:
Yes, that share one.

Owen:
The share registry. The boring thing, it's what happens after you buy shares. So everything leading up to buying shares is like, which broker do I choose? What shares or ETF should I

invest in? But then as soon as you buy something, what do I got to do? You got to sort out your tax. Send your tax phone number, why so? It's all recorded properly. That's with a share registry. So there are some other things you can do. There are apps like there's the ATO app, there's the Xero app for people with business, MYB, QuickBooks.

Owen:
All of the big accounting firms have them as well. And so what you do with those apps is you effectively just record your expenses on the go or you can do what Kate and I do, which is a bit more manual, but that's okay too.

Kate Campbell:
Yeah. Or you could just schedule like a monthly tax date with yourself, so you can get up to date with everything date. I have never been the person to do that, I'm just put it in a folder and get to it at tax time. But it depends how easy you want to make your life, you can.

Owen:
The thing about tax time is it's all habits. It's either you can just put the receipt in the side of your door, in your car when you're parking, when you go for work. But the other thing is that you can actually just get the apps, which then allow you take a photo and store it, like the ATO app allows you to take a photo, and you can store it. So keeping good records, super important, know what kind of tax pay you are. If you're a sole trader and if you have your own small business, you're going to have a lot more flexibility with what you can claim. So even more reason to keep receipts.

Owen:
And if you are in a small business situation, please get Xero or MYB, or something like that. It will save you so much money. Okay, Kate, episode takeaways, give them to me.

Kate Campbell:
Okay. First one, you probably need a tax file number, it makes life easier. It's not compulsory, but it's just going to be a whole lot of hassle if you don't. In terms of withholding tax, key taxes to be aware of and that I really recommend going to the ATO website and learning about is income tax and capital gain tax. They're the main things you need to know as an employee and a new investor. Have a look at all those tax incentives that we talked about, Google each one, the ATO website pops up really straight away for each of those things you Google, they've got pretty good SEO.

Kate Campbell:
And it's also, I really want to stress to you the importance of keeping good records, which is something I didn't do during my first few years of investing. And it was always a hassle and I always was annoyed at myself and regretted not keeping good records. So I've gotten a lot little bit better, not amazing.

Owen:

A lot little bit.

Kate Campbell:
A lot little bit. Yeah.

Owen:
One thing I want to stress with key takeaways here is just know the incentives, know which tax rules are applying, which ones are being proposed, because you can save or make a lot of money. So go check that out. Kate, we've got some action points at the end of this episode, we've got one for people that are new to the podcast series and people that are more advanced. What is the one that's for newer listeners of the show?

Kate Campbell:
If you're new to the show, I'd really recommend going to the Australian Tax Office, ATO's website and just having a look around. They've made it really customer friendly to look at everything, find out the information. They provide a lot of examples too. So if you're going, "Oh, what's capital gains tax?" They'll actually break down how that works for someone who has an investment. And they also talk about all sorts of new stuff like what does crypto have to do with it and declaring that and side hustles. And they'll give you all that information you need. We also got a forum.

Owen:
Yeah, we do. People can ask some questions.

Kate Campbell:
Experts and people answer questions and they've got some tax guides for new investors as well. So have a look and familiarise yourself with that.

Owen:
Yeah. So the one that I would just call out there is then the tax guide for share investors. So there's one that's specifically set up for people that invest in shares because it does get complicated and they explain all of it like, what happens if I've bought BHP shares five times at different prices, which price do I use to calculate capital gains tax?

Kate Campbell:
Yeah. I see that one question come up a few times in our Facebook community. So that's important to know about, especially as you get a bit more sophisticated in your investing-

Owen:
And your balances get bigger.

Kate Campbell:
Yeah. Balances get bigger, the potential tax liabilities get bigger. So it's important to have a look at this. And in general, the theory behind income tax and capital gains tax, once you learn it and

figure it out, it stays the same. It's just maybe the rates and what numbers get tax changes. And also creating a record system, whether that's Google Sheets, Excel, maybe even a Word document, just something to keep records during the year, maybe set aside time for a tax date with yourself each month, maybe you have a folder in your email inbox to drag all those emails to, or a specific folder in your phone, whatever it is, just try and figure out a record system that works for you because it makes life so much easier at the end of financial year.

Owen:
Yep. I like it. And the one for more advanced listeners, the people that have been listening for three years to the Australian Finance Podcast or going on three years, congratulations. And thank you for putting up with us this long. I've been listening to my own voice for a while now, it's been pretty horrendous, but what I want to do is I want to remind you to do an audit of your, basically all of your investments. And what I mean by this is like a tax audit. Do it yourself, go into your brokerage account and make sure that you've gone and into your share registry, you've put in the right tax file numbers and you've got all set up correctly, because you might find that you've missed one and you're being withheld tax.

Owen:
For example, on an ETF. And we know that can be a bit cumbersome at tax time. So make sure it's all correct because you don't want to have to go back and correct any of that stuff.

Kate Campbell:
Yeah. And check every individual registry. And if you have multiple brokerage accounts, check each registry under each of the holder notification numbers.

Owen:
And remember, you can still use something like Sharesight as well for your performance and reporting. So Sharesight, we're not endorsed nor are we affiliated with them, but Sharesight is a tool that you can use. I think it's free for up to 10 investment positions, so if you have five ETFs, it would be free for you. You can use Sharesight, it's like software that calculates the taxable gains and losses and whatever, and it also reports on your performance to see if you're any good at investing.

Kate Campbell:
That's always important.

Owen:
That's about it.

Kate Campbell:
That's a whole podcast. Am I actually good at investing three years on? Should I have a look?

Owen:

So a citizen starter pack 2.0 next year. But don't forget, that if you want to learn more about this really important topic, you can head to Rask Education and you can take one of our courses. For example, our Money and Budgeting Course talks about tax, introduces you to the tax system super and how it all interplays with investing. So this heaps new resources that we'll have available here in the episode show notes, so please go and check that out. You'll find them in your podcast player, or you can head to our website and follow the links to that. Yep. Cool.

Kate Campbell:
Awesome.

Owen:
Kate, as always, a starter pack episode where we talk about tax, who would've thought?

Kate Campbell:
Yes. A very important one, but it'll save you a bit of heartache down the road if you do it right first time.

Owen:
Absolutely. Take our word for it. Learn from our mistakes.

Kate Campbell:
We have all paid a bit too much tax in our time.

Owen:
We have indeed. We'll see you in the next episode.