Top 5 ways to use your tax refund NOW

TAX RELIEF IS COMING FOR ABOUT 10 MILLION[1] AUSTRALIAN TAX PAYERS. PLAN AHEAD NOW FOR THE BEST WAYS TO USE (NOT SPEND!) YOUR TAX REFUND.

Tax changes ahead

From 1 July 2018, most Australian taxpayers will enjoy a tax cut. There are three major phases, the first of which applies to the next four financial years until 30 June 2022. Low and middle income earners will benefit the most with the introduction of the Low and Middle Income Tax Offset.

There will be a full $530 offset for taxpayers earning between $48,000 and $90,000. Those earning between $90,001 and $125,333 will see a reduction in the offset at the rate of 1.5 cents per dollar. No offset is payable if your income is $125,334 or more. The offset will be calculated and applied when you lodge your 2018/19 income tax return next year and will be a one off amount applied to your Notice of Assessment.

Taxpayers earning less than $37,000 will only be eligible for a maximum $200 tax benefit. However taxpayers with a taxable income between $37,000 and $48,000 will see the value of the offset increase from $200 at a rate of three cents per dollar to the maximum benefit of $530.

Another change for the 2018/2019 financial year includes raising the top threshold for the 32.5% marginal tax bracket from $87,000 to $90,000, reducing the amount of tax withheld for those earning between $87,000 and $90,000. This reduction is $135 assuming one earns $90,000. According to the Australian Tax Office, individuals don't need to do anything to receive this tax cut – your pay packet will see the increase as the tax amount sent to the ATO is reduced.

Don't expect to see the benefits immediately

Tax payers will be able to claim the new $530 offset come tax time ending 30 June 2019. It won't reduce the amount of tax withheld from your pay – it will be a one off amount applied to your Notice of Assessment.

This new tax relief may not seem much on its own, but coupled with other tax deductible items, you may find yourself with a decent amount to use – not spend!

Always have a plan

The key to using your tax refund wisely (if you are lucky enough to get one) is to plan ahead. Start making smart decisions about your tax return now – don't wait until the end of the financial year. Don't let your tax refund dissolve into every day spending. Put your tax refund to work in line with your financial goals and if you don't have any financial goals, now is the time to set some.

Benefits of setting financial goals

We all know the benefits of goal setting – gaining clarity, focus and achieving success. By reviewing our financial goals, for instance around savings or debt repayment, we focus on what we earn, spend and owe. It highlights what we don't know, allows us to make positive changes and focus on our priorities. So let's get that tax refund working for you.

Top 5 ways to use your tax refund NOW

Top 5 ways to use your tax refund

There are a number of short and longer term strategies to use your tax refund wisely.

1) Reduce debt stress

- Paying down debt can reduce ongoing costs, freeing up your monthly budget.
- Paying down bad debt with the highest interest rate is a good idea – for example credit cards.
- If your current debt is mostly bad debt, then pay off the credit card/loan with the highest interest rate first. Once paid off, allocate that amount to your next debt until it has been paid off.

2) Add to your super

- Help grow your retirement savings.
- The more you contribute now, the more you will have when you retire (but bear in mind the tax implications of voluntary super contributions).

3) Save for emergencies

- Contribute to some savings as an 'emergency fund' for life's unexpected events or outlays.

4) Reduce your mortgage

- Make an additional payment to your mortgage or line of credit.

5) Simply lock it away

- Into a separate savings account or term deposit to earn interest.

Whether you are considering what to do with your tax refund this year, or thinking ahead to this time next year with the new tax offsets, always plan ahead on how best to use your refund.

Reviewing your financial goals will help you decide how to best use your tax refund. If you don't have a financial plan, see our 2018 financial evolution worksheet, or contact our office for finance or credit assistance with your own financial circumstances.

See the Australian Taxation Office website for more information.

2018/2019
new financial year
START TODAY!

My top 3 personal goals for the financial year 2018/2019 are:

1. ____
2. ____
3. ____

My top 3 financial goals for the financial year 2018/19 are:

1. ____
2. ____
3. ____

Here are our top tips to help you achieve your new financial goals this year. Follow them through and you just might make your financial year 2018/2019 the year that makes a difference to your financial future!

Revisit or redo my budget

Email us for a copy of our budget organiser to help you make a start.

Save 10% of my earnings

Direct credit/transfer into a separate high interest savings account to avoid unnecessary and emotional spending temptations. Alternatively if you have a mortgage, these savings may be better served by depositing them into your mortgage or offset account (provided you have the discipline not to spend them!)

Make extra payments on my mortgage

It's amazing how increasing the frequency of payments from monthly to fortnightly or even weekly will allow you to save on interest costs, provided you maintain the same total repayment for the month. If you can afford more – even better! If you call us we can let you know how much interest you could save over the lifetime of your loan. You'll be surprised at what a difference it can make.

Pay off my 'bad' debt first

'Good' debt is used to purchase assets that are likely to earn income or increase in value over time - assets such as your house and investment properties. 'Bad' debt is used to buy goods that devalue as times goes by, such as cars and TVs. If your current debt is mostly bad debt, then pay off the credit card/loan with the highest interest rate first. Once paid off, allocate that amount to your next debt until it has been paid off.

Consolidate my debt

By transferring your debt into one easy payment, we can help you reduce your total repayments and help you work out a plan to eliminate your debt and get ahead financially. For example, if you consolidate your debt into your mortgage, we may be able to set up a split loan facility with a shorter loan term. This will allow you to pay off this portion sooner to avoid spreading it over 30 years and actually accruing even more interest! If you maintain your current payments, it will be paid off even sooner as the interest rate on your mortgage is generally lower than that of your other debts. Your home loan will nearly always have the cheapest interest rate.

Contact us today to receive our **'2018 New financial year'** worksheet.

alphaloan
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1. https://www.ato.gov.au/Individuals/Lodging-your-tax-return/What-s-new-for-individuals/#personalincometaxplan