PERSONAL FINANCIAL
STRATEGIES
YOUR PERSONAL GUIDE TO WEALTH CREATION

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Deadline looms for super top-up

The 2012 Federal Budget revealed tougher laws for superannuation from the start of next financial year, 1 July 2012. For over 50's with an income of $300,000 or over, super will now be taxed at 30 per cent, rather than the current rate of 15 per cent. The proposed concessional contributors cap for those over 50 with less than $500,000 super has been deferred for two years.

This means that for over 50's, there are only a few weeks left to top-up super payments to the full $50,000 for at least the next two years. After 1 July, contributors will only be able to put $25,000 away before breaching the cap and incurring extra tax. Salary sacrifice arrangements for next year should be revised to ensure salary sacrifice payments that are automatically deducted to the fund do not breach the cap.

Non-concessional contributions, the contributions which are not included in the assessable income of the superannuation fund, are made from the member's after-tax income. There are also several specific inclusions like Government co-contributions and proceeds from the disposal of business assets that will not breach the cap.

The good news is that legislation has been passed to allow contributors to receive a refund of up to $10,000 of excess contribution for the first time you exceed the cap.

Contributors who have not yet made the maximum non-concessional contribution should take care not to breach this year's cap. In some cases the penalties start at the top marginal tax rate of 93 per cent.

One way of adding value to an SMSF without breaching the cap is to use franking credits from fully franked dividends to offset the extra cash on contributions. Many funds with shares paying fully franked dividends do not pay over the 15 per cent contributions tax.

For contributors earning less than $300,000, there are few changes to super in this year's budget, however employees must be aware of any unexpected income that will push them over the $300,000 limit. An example of this is share plans that may occur when

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restrictions come off company shares that are vested in employees.

If an employee is unsure about when this might happen, it would be wise to speak to their employer.

As for under 50's, $25,000 continues as the maximum that can be put into most super funds without breaching the cap and receiving a tax penalty.

Although there is no tax break on super funds, any earnings made once the pension is started, as well as the funds earnings, are all tax free.

Super strategies for the masses

The Government is making a few changes to the way lower income earners can contribute to their super from 1 July.

Primarily, this involves a refund of tax paid on concessional super contributions, where income is below $37,000. The concession is valued at up to $500 if an employer makes the full nine percent of salary super on the contributor's behalf. For example, if an employee earns $37,000 the super paid will be $3330, so $500 of tax will be refunded into the fund.

The lower the contributor's income, the lower the refund will be, a contributor earning $20,000 will only receive a refund of $270. Contributors earning less than $37,000 can use salary sacrifice as a way of putting $3330 into the fund in order to receive the full refund amount of $500.

The principle behind this strategy is to encourage lower income earners to put as much as they can spare into super.

There are still a few weeks left in this year to take advantage of the after tax contribution that is matched by the Government, under the co-contribution entitlement. The maximum the Government will match is $1000, but this is limited to those earning less than $31,000. If taxable income is more than this amount, the entitlement is adjusted, based on income and how much is contributed.

The formula for working out the contribution amount is = subtract the minimum amount ($31,000) from taxable income then multiply the answer by 3.333. For example, if the full salary is $37,000 the formula will look like this:

$31,000 (minimum amount) - $37,000 (income) = $ 5080 x 3.333 = $169

The $169 is deducted from the $1000 the Government will match, bringing the co-contribution amount to $831. Co-contributions will be halved from 1 July to $500, so it is worth doing this year.

For a contributor over 65 and working full time, proceeds from selling assets, such as property, will be capped at $150,000 after tax contributions per year. A contributor must be over 65 as of 1 July.

If the contributor is working full time the following year, they can deposit the rest of the amount from the sale of the asset, e.g. If a property sold for $200,000 the remaining amount of $50,000, will be deposited next financial year.

Having a strategy in place to effectively grow and manage super will help contributors grow their wealth by working with the new laws.

The following are helpful tips for growing your super fund:

Understand that the longer the life of the super fund, the more likely the fund will experience some form of short-term market volatility — from which it will generally recover. Look for good quality investments, shares that have low volatility.

We can help you keep track of the profits and losses of your shares and let you know how effective these shares are in your super fund. Please contact us for discussion if you would like to know more.

Superannuation and divorce

When a marriage breaks down, upon many things that must be divided up is superannuation.

Problems arise in this area especially when one partner has not worked full time, or at all, and they have a much smaller amount of super then the primary earning partner.

In the eyes of the law, super is a joint asset – the efforts of one partner to enable and facilitate the contributions made by the other partner means they are both entitled to benefit from the fund.

In the process of a divorce the super fund is to be divided up between the two divorcees. Once the value has been decided upon, a fund has to be created in one partners name and the funds from the original account must be rolled into this new fund.

At no time can either partner withdraw any of the funds.

The larger and more complex the super fund is, the longer it will take to divide up the assets.

An accountant can help divorcees prepare the super fund for division prior to lawyers becoming involved.

To understand what this process might involve, it is wise to keep regularly updated on the growth of your super fund.

Golden handshakes examined

A change in legislation has some wondering about paying extra tax on termination payments.

In an announcement unveiled through the Budget, the Government will introduce tougher rules on payments received when leaving a job, commonly known as the 'golden handshake'.

The tax concession on such payments will be reduced, from 1 July 'golden handshakes' will be added to the total taxable income of an individual.

Only the amount that brings personal income up to $180,000 will receive concessional tax benefit, anything over this amount may be taxed at 46.5 per cent.

The Government expects to save $196.4 million over the coming four financial years by cutting back the availability of a tax offset on termination payments.

The Budget papers also show the Government has revised its estimated spending on redundancy payments downwards for 2012-13, suggesting there will be few pay-outs made after 1 July in the public sector.

The projected spending on separation payments was cut from $43 million to $37 million, even though the Budget forecast significant job losses in both public and private sectors.

Meanwhile, the redundancy bill for this financial year has blown out from an estimated $59 million to $110 million.

The Public Service Commission is expected to publish a six-monthly update of official workforce statistics this month, which should show the extent to which government agencies began downsizing last year.

The best way around this legislation is to get an expected termination payment before the end of this financial year.

Termination payments for genuine redundancies, invalidity and compensation for employment disputes or deaths will not be affected by the changes.

The Government has also tightened tax concessions for people working interstate and for foreigners working in Australia.

Under the previously announced changes, workers will have to demonstrate they rent or own a second home interstate to receive the Living Away From Home Allowance.

Maximise sale of business by being prepared

Baby Boomers need years of preparation to get the most out of the sale of their SMEs.

A recent poll of SME owners suggests 45 per cent of respondents plan to exit their business within five years. However, a similar amount of owners are not adequately prepared and have no plan to maximise the return on the sale of their greatest asset.

Experts agree at least three to five years are needed to properly prepare for the sale of a business; the place to start is to get the business independently valued and assessed. That way potential buyers can see what the business is worth, what the annual turnover is and how much tax is paid each year.

Another key concern is how much capital gains tax will have to be paid when the business is sold, and how can a seller go about minimising this figure?

Strengthening customer contracts is a great way of adding value to a business, consider the biggest customers, is there a contract in place or a mutual agreement? Having hard copies of contracts with your customers will help to grow potential buyer's confidence.

Having great, well trained staff in place is of huge benefit to any business, buyers will want to know if the current staff will stay on after the owner leaves. Owners are expected to speak to staff about the sale of the business to ease concerns over their future. Being able to guarantee a team of well trained staff is an important selling point to potential buyers.

Owners may have to spend time training junior staff members to take over when they leave. If the owner themselves generates most of the income, it is up to them to pass on their knowledge and delegate responsibility to other staff members. To avoid spending months training staff, regular training sessions should be scheduled in the years leading up to the business sale.

The global financial crisis has delayed the sale of many SMEs, however there will always be a buyer interested in a business that has maximised its initiatives and promises a great investment.

Key points when selling a business

- ✓ Prepare for the sale at least five years prior to selling.
- ✓ Strengthen ties with key customers and draw up contracts where possible.
- ✓ Train staff to run the business without the owner being present.
- ✓ Speak to staff about selling the business.
- ✓ Prepare documents for sale of business as early as possible.
- ✓ Do not sell if the timing is wrong, be patient and be prepared to wait until the right buyer is found.

ATO warning on capital gains tax

Although the Government labels Trusts as a legitimate planning tool, an overhaul of trust laws will catch those planning to dodge the capital gains tax.

The Australian Taxation Office is targeting those of the Baby Boomer generation who may want to dodge paying tax on wealth transfers. The ATO has recently seen some 'aggressive' attempts to avoid tax by trustees naming family members as trust holders.

The expanded use of data-matching technology will help the Government crack down on those it deems are not paying enough tax. Tax office systems can link trusts, companies, partnerships and individuals to work out who is the key generator of the wealth.

The individuals and groups will be divided into four categories. The top tier is made up of nearly 9000 very high income earners; these individuals will receive the most attention. The second category, essentially well behaved wealthy tax payers will receive less attention. The bottom two categories are divided into medium income business owners who pay regular tax, and those who are under suspicion.

The Government states the aim of this exercise is to simplify tax rules in relation to trusts in order to benefit the many business owners who do abide by the law.

Unit trusts explained

A unit trust is a pool of investments divided up among investors according to the amount of money they have contributed to the trust.

The difference between this and a 'family trust' is that no individual has complete discretionary power.

One or two people, usually a husband and wife, control a Family Trust. They have complete discretion as to where and whom they distribute income each financial year. Such "trust" is not usually shared outside a family, hence the need for a Unit Trust.

At the end of each year, income is distributed to the Unit Holders in proportion to the units that beneficiary holds. The Trustee has little or no discretion. Units may be held by Family Trusts, companies or by individuals.

The ownership of the trust funds is divided into a number of equal units.

The units are recorded on a register and are transferable like shares in company.

An accountant can construct a Unit Trust to include mechanisms for cashing in (redemption) and transferring the units.

Of particular importance is the procedure for determining the price at which units are to be redeemed or sold.

Units in the Unit Trust can be readily traded and people holding them can participate in the profits of the business on a previously determined set percentage.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

The Bookshelf

The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

Author: Eric Ries
Publisher: Random House

Eric Ries defines a startup as an organisation dedicated to creating something new under conditions of extreme uncertainty. This is just as true for one person in a garage or a group of seasoned professionals in a Fortune 500 boardroom.

What they have in common is a mission to penetrate that fog of uncertainty to discover a successful path to a sustainable business.

The Lean Startup approach fosters companies that are both more capital efficient and that leverage human creativity more effectively.

Inspired by lessons from lean manufacturing, it relies on "validated learning," rapid scientific experimentation, as well as a number of counter-intuitive practices that shorten product development cycles, measure actual progress without resorting to vanity metrics, and learn what customers really want.

It enables a company to shift directions with agility, altering plans inch by inch, minute by minute.

Rather than wasting time creating elaborate business plans, The Lean Startup offers entrepreneurs - in companies of all sizes - a way to test their vision continuously, to adapt and adjust before it's too late.

Ries provides a scientific approach to creating and managing successful startups in a age when companies need to innovate more than ever.