



financialinsights

Financial Insights

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Tax Planning

From March through to May every year we recommend that you:

1. Identify the likely tax payable as things stand now; and
2. Consider how to reduce that tax through simple and effective strategies.

Your tax planning strategies may include:

- Contributing extra funds into superannuation.
- Stocking up on consumable items that you will use in your business over the first couple of months of the new financial year. Common items include stationary and postage stamps and other consumables.
- Crystallising capital losses to offset any capital gains already triggered during the year.
- Reviewing your personal spending over the year to see if there is anything that could be classified as a business cost that you have allocated to drawings or private spending.
- Reviewing the "structure" under which you own your assets or operate your businesses to determine if you have the most tax effective set-up.
- Advertising or promoting your business through various means (eg having flyers or business cards printed). This will reduce your profit before the end of the year but perhaps increase your income in the new financial year.
- Bring expenses forward into the 2010 financial year that you would normally pay early in the next financial year anyway. Common examples include insurance and replacing low cost assets (items under \$1,000 each)
- Maintaining a logbook for your car (if not owned by your business) for at least a 3 month period. This may allow you to use one of the other methods of claiming a vehicle and obtain more tax deductions in doing so.
- Get all of your medical bills sorted to see if you are over the threshold for a tax benefit. If you have spent over \$1,500 on medical costs, or even quite close, then making that trip to the dentist; refilling those prescriptions; or buying those glasses that you have put off until now will improve the quality of your health and save some tax at the same time.
- Consider donating to charities as a way of contributing to the community whilst saving you a little tax.
- Prepaying interest on one or more of your rental properties. In doing this, you bring forward deductions into the 2011 financial year. There are two immediate advantages in that: a dollar saved now is worth more than a future dollar; and, claiming the deduction in a period with higher personal tax rates will produce a greater tax saving. However, be aware that this will mean you need to keep pre-paying in future or forego a deduction.
- Undertaking a maintenance program on the assets of your business and/or other assets. By doing this on a rental property, for example, you increase its value and can use this to attract higher rents and/or higher valuations to enable you to invest in more real estate. By maintaining the business assets, you will (hopefully) have less downtime in the busier seasons.

Most importantly though, by communicating with us you have more chance of paying less tax than you would if you leave matters until after the end of the financial year when you do your tax return.

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Nearing Retirement?

If you're nearing retirement, you're about to go through one of the biggest and most exciting changes in your life.

However, the key to making a smooth transition is to decide how you are going to spend your time as well as your money

How will you spend your time?

Retirement is the start of a whole new chapter in your life and after decades of hard work you'll have the opportunity to take up new hobbies and pursue neglected interests.

For some people, this means spending more time with family and friends. For others, it provides an opportunity to learn a new language or do some volunteer work. There's also the potential to do more travelling, whether locally or further abroad.

Thinking about what you want to do when you retire is important for two key reasons.

Firstly, it can help you with what can be a big adjustment emotionally.

Secondly, once you know what you want to achieve from a lifestyle perspective, you'll be in a much better position to:

- determine whether you can afford to retire when you want, and
- decide how you can make the most of your money before and after you leave the workforce.

Make the most of your opportunities

Whatever your lifestyle goals might be, there are a range of strategies that could be used to maximise your financial position and give you the best chance of achieving the lifestyle you want.

For example, if you plan to keep working for a while, you could boost your retirement savings in a tax-effective manner by making 'salary sacrifice' (pre-tax) or personal deductible super contributions.

If you are aged 55 or over, you could use your existing super to start what's called a 'transition to retirement' pension and receive a tax-effective income.

This income could then be used to replace any salary sacrifice or personal deductible super contributions you make and build your nest egg without compromising your current lifestyle.

Alternatively, if you plan to scale back your working hours, the income payments could be used to maintain your lifestyle.

Also, when the time comes to retire, you could use your super to start what's called an 'account based pension'. This may enable you to:

- receive ongoing tax-effective income payments, and
- possibly qualify for (or increase your entitlement to) Age Pension payments.

Plan for success

Regardless of whether retirement is just around the corner or a few years away, it's important to think about what you want to do when the nine-to-five grind is behind you.

Once you've done that, a financial adviser can help you:

- fine-tune your lifestyle goals
- identify how much income you'll need, and
- develop a sound financial plan to help you turn your dreams into a reality.

To find out more about planning your retirement and the strategies you could use to maximise your financial position, speak to Darren Foster of Paris Financial Services on 0488 332 776.



If you are aged 55 or over, you could use your existing super to start what's called a 'transition to retirement' pension and receive a tax-effective income.

Beware When Purchasing Motor Vehicles

Local business owners may be getting hit with a hidden charge on Motor Vehicles.

Car sales Dealerships often inflate the price of an asset so they can offer a more competitive finance rate to the buyer. Because the provider makes extra money on the sale, they can therefore afford to receive a lower margin on the loan.

The lower interest rate is promoted by some equipment providers as an incentive for the customer to make the purchase with them



Business owners should be aware of this strategy and concentrate on securing the best possible cash price for the asset, and then assess the finance deal separately

as this is often the best overall option.

Most companies will offer a discount for cash payments and purchasers should negotiate the lowest price on the vehicle based on a cash payment, and then decide whether the finance rate offered on the inflated price is really good value. The best way on knowing what the best cash price is using a Car Buying Service.

Vehicle finance providers also often fail to include all the relevant information in a finance quote. This can mean that the total cost of the equipment is more than the buyer is originally led to believe.

Potential problems with finance quotes include:

1. Not including the residual amount with GST (which makes the repayments look lower but means clients end up paying more at the end of the contract)
2. Residuals not meeting ATO recommended safe harbor guidelines
3. Incorrect product that limits the claiming of GST
4. Comparing interest rates instead of repayments – repayments include all fees and charges
5. Focusing on repayments only, not considering the taxation considerations
6. Not quoting on the correct structure for finance. This can result in the client paying a shortfall out of his or her own pocket at the end of the contract.

All business owners seeking finance on vehicle acquisitions **should get independent** advice before making any decisions or signing any contract with a Dealer. Often clients would be better off purchasing assets at a lower price and accepting a slightly higher interest rate on the loan.

Trust Distributions

Late 2010 the High Court decision in Bamford v FCT endorsed what is known as the 'proportionate' approach when distributing income from a trust to its beneficiaries. Put simply, the decision has created uncertainty with respect to the distribution of income from trusts which receive franked (company taxed) distributions and/or capital gains. The uncertainty surrounding this has been going on for a long time and finally through much pressure from Accounting and Legal lobby groups the Assistant Treasurer Bill Shorten will address this uncertainty and has promised that the government will amend the tax legislation so that 'streaming' can continue to occur. This means that different types of income, such as franked dividends and capital gains, can be flowed, or 'streamed' to particular beneficiaries (usually natural persons who are Australian residents for tax purposes), and other types of income can be distributed to other beneficiaries (such as Australian resident minors).

This means that individual Australian resident taxpayers who are beneficiaries of a trust will continue to benefit from the 50% Capital Gains Tax discount and access to imputation credits from franked dividends. It's an important stand by the Government to make things clear for us Accountants and Financial Advisers continuing to work hard at finding avenues within the law to maximise your personal and/or business position.

The proposed changes will apply for the 2010-11 and later income years.

For more information, please talk to us and we can explain further

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Mortgage Reduction Strategies

Make your dream of debt free home ownership a reality with a few simple mortgage reduction strategies.

The longer you take to pay off the principal amount you have borrowed for your home the more interest you will end up paying – it therefore makes sense to try and put a dent in your mortgage as quickly as possible.

Mortgage reduction is much easier and less painful than most people think, and with a few simple steps you'll be sure to drive your mortgage down.

Review your home loan

With the home loan wars running hot, lenders are now offering heavily discounted loan packages to win over your business.

Ensuring that your home loan still offers a competitive interest rate could save you thousands of dollars over the short, medium and longer term. However be sure to give us a call for advice on the most appropriate product for you and any fees or costs that are associated with switching before jumping ship.

Increase your repayment frequency

Changing from monthly to fortnightly repayments is the safest and most effective mortgage reduction strategy.

By paying fortnightly you are effectively making a total of 12 monthly repayments over the course of a year, giving you one month's extra repayment every year.

At first glance this figure may not seem significant but you could essentially wipe more than 4 years off the life of a 25 year loan term and save tens of thousands of dollars should you engage this simple strategy.

Make lump sums

Whether you've just received a tax rebate, Christmas bonus or an inheritance, use every opportunity to drive down the principal amount of your mortgage. The more cash you drive into your mortgage, the earlier you'll repay your loan.

And remember, if necessary, you can usually release any additional repayments from your home if you have to unlock those extra dollars at some stage in the future.



Changing from monthly to fortnightly repayments is the safest and most effective mortgage reduction strategy.



Important: This is not advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This document is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

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