

9th of February 2009

Effective Tax Planning!!

There are many things happening in the world at the moment that we simply cannot control. We have the global financial crisis, companies failing, profits declining, high inflation and low Aussie dollar, horrific bushfires and floods, just to name a few. For some it could be very easy to just say life is all too hard! That is understandable in some ways but those who work hard to get their house in order now, will benefit enormously in the future. Tough times don't last but tough people do!

As financial advisers we rarely if ever speak to anyone who has everything in order. You need to take control of your situation and the good news is there are many things you can do to improve your future.

You really need to ask yourself:

Have I structured my financial affairs in the best possible way to minimise tax and maximise benefits available to me?

Many people we see often leave their tax planning until it is too late. Whilst the end of the financial year is some time off it is quite often too late to make the necessary changes when we are in June; or worse still July!

I intend to discuss quite a few areas over coming weeks that can assist people but one of my favourite strategies that I would like to discuss today is:

Transition to retirement

This is one of the most tax advantaged strategies available. If you are over 55 years of age and you have a reasonable amount of money in super (or the ability to put a reasonable amount in) you should be considering this. You can save tax in many ways whilst still boosting your retirement savings.

For those that are not yet 55 careful consideration and planning should be undertaken to ensure they are in the best position to take advantage of these strategies, otherwise they will miss out on saving thousands in tax and possibly securing a comfortable lifestyle in retirement.

Judy's story.....

Judy sold an investment some time ago and put the proceeds in her super fund and now has \$400,000 accumulated. She currently earns \$75,000 per annum, which equates to approximately \$57,375 after tax and Medicare Levy. She has paid her house off and has no dependants.

Even though she's reached the age of 55, Judy loves her work, so she's decided to continue working until she's 65.

What should Judy do?

Judy could roll her super account to a pre-retirement account based pension. Within this account she would pay no tax at all, on any earnings the funds made. Super funds are normally taxed at a rate of 15%, so there is an immediate tax saving there.

She then elects to draw an income of \$40,000 from this source. Judy will now pay no tax on this income at all as it is drawn from non-concessional contributions. That is contributions she made to super that have had tax paid on them already.

Judy then arranges for her employer to pay say \$40,000 into her super account as a salary sacrifice arrangement and receives the remaining \$35,000 as income. The tax rate on the money paid into the super account will be limited to only 15%. This means Judy would pay less than 15% tax on average for all income she receives.

Tip: Make sure your employer will continue to pay your 9% super on your total package.

In addition to reducing the tax on her income dramatically, she would pay no earnings tax on her pension account and be accumulating more money in super to assist her eventual retirement. In this example Judy would also be entitled to an extra \$1,500 rebate for Mature Age Workers Tax Offset and Low Income Tax Offset.

So whilst maintaining at least the same level of take home pay (actually over \$14,000 more in this example) and in addition to the tax savings, it is estimated Judy will have accumulated a total super/pension account balance in excess of \$824,000. This works out to be over \$84,000 more than she would have if she did not undertake the strategy.

So to sum up the benefits are:

Personal income tax saved each year \$6,600

More money accumulated in super in excess of \$84,000

No capital gains tax on assets in pension

No tax on earnings in pension

No income tax on pension income after 60

This may all sound too good to be true but it has been fully endorsed and sanctioned by both sides of parliament.

Of course this is intended to be general information only and you should seek personal advice before undertaking any financial strategy.