

17th of February 2009

Assets test clarification

Last week we spoke about Centrelink benefits and in particular the upper thresholds of the assets test. We mentioned that in some cases people could have up to around \$800,000 in assets and still qualify for a part age pension. We were generalising somewhat because the upper limit is actually \$873,500 for a homeowner couple. As we know the family home is excluded from the assets test in most typical circumstances.

A non-homeowner couple could in fact have up to \$998,000 and qualify for some benefits.

We received a call from Meryl last week and she asked about the assets test for single people. A single homeowner can have up to \$550,500 and a single non-homeowner can have up to \$675,000 and still be eligible for some benefit.

Thankyou Meryl!

Asset Ownership & Tax Planning

Whilst we are going through a very tough period at the moment from an investment point of view, many people we talk to see the fantastic opportunities that current market conditions are providing. It really is a great time to invest for those that are able.

With very low interest rates and the first home owners grant there is quite a deal of activity from first home buyers who are now able to get into the market.

With the low interest rates and people nervous about share markets, we see some investors considering the purchase of an investment in property.

We think residential property as an investment has quite a few challenges. Some of these include:

Low yields, Limited Tax Effectiveness, You have to maintain it, Tenants and Tenancy, Lack of Diversification. In addition many people already have significant exposure to property through their home.

To balance the ledger there are some positives too though:

Banks are happy to lend against real estate, you can do a property up or you can develop a property.

Many people hear the news of the falls in share prices and shy away from the share market – unfortunately this is not necessarily the right thing to do though!

Everyone knows that deciding what investments to own is a very important decision.

Deciding how these assets are owned is just as important, but quite often does not get due consideration.

Should the asset be owned by one individual or jointly?

If it is individually which individual should own the investment? Should it be the highest tax payer or maybe the lowest?

Should they be owned as tenants in common?

Should you own assets directly, or in a structure such as a trust, company or super fund?

Ownership structures can provide access to benefits that may be appealing to certain groups of people. Certain structures could provide benefits they may not otherwise qualify for?

You need to consider:

What are the tax outcomes?

Does the structure offer asset protection benefits?

What are the estate planning outcomes? Understanding what happens to your assets if you die is extremely important. Many don't give this due consideration also.

Jane

Our client Jane runs her own company and earns \$200,000 from salary and profit distributions. Profits are distributed through a family discretionary trust which is a shareholder of her company. She is married with two children. Her husband is an engineer. They have a small mortgage but would like to own their own home.

Jane was referred to us by an existing client of ours. She thinks she wants to buy an investment property to reduce her tax but she had many questions:

Should she buy a house or a unit?

Should she buy a new or an existing property?

Who should own the investment?

Should it be owned in a company, trust or super fund?

What are the estate planning issues?

Is there a better way?

So what did we do?

After carefully considering all of Jane's circumstances we recommended she uses her home equity and invests in a well diversified portfolio of investments including property and shares.

As Jane's business was quite profitable we recommended she establish the investment in her discretionary trust.

Through our mortgage brokers we helped her to establish a line of credit with separate accounts for the home mortgage and the new investment debt. She then loaned the funds to the trust in order to establish the investment. In her case this provided many benefits. This arrangement delivered substantial tax benefits including interest deductible to the trust, franking credits, tax free and tax deferred components from the property investments, discounted CGT on assets owned for more than 12 months.

In addition to this there was the potential for asset protection because the trust owned the investment. Should something go wrong in her company creditors may not be able to attack the investments in the trust.

We also completed a full insurance review and established Income Protection Insurance for them both. This was fully tax deductible. We arranged comprehensive Trauma and Life insurance to protect the family. The life insurance was structured under her super fund and this made it tax deductible also.

We also reviewed and rearranged their superannuation funds to ensure they had the correct investment strategy for their circumstances.

The outcome in this case is that we delivered a comprehensive financial and investment strategy that will deliver strong results in the future.

We fully protected the family and made sure the whole lot was structured to take full advantage of tax and estate planning benefits.

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