

YEAR END STRATEGIES

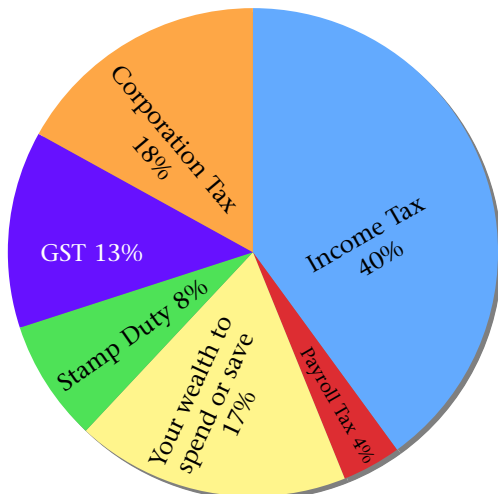
THE 2005/06 TAX GUIDE FOR YOU & YOUR BUSINESS



THE 'TAX PIE' AND HOW TO KEEP AS MUCH OF IT AS POSSIBLE FOR YOU AND YOUR FAMILY

Tax planning is all about understanding the personal and business taxes you are liable to pay, and looking at ways to minimise them. In this way, you can help maximise your net income, creating opportunities to save for the current and future needs of your family and your business.

Tax seems to be taking an ever-increasing slice of the nation's income. Our 'tax pie' diagram (below) shows how your wealth can be diminished by both taxes out of income, and those taxes payable on death or a capital transaction, leaving one slice for you to spend or save. If you wish to ensure that this slice for your personal use is as large as possible, then we can help you.



Albert Einstein once famously said that 'the hardest thing in the world to understand is income tax'. But don't let complexity deter you from a simple goal: keeping your taxes as low as possible. As accountants our role includes not only preparing financial statements and tax returns but also working with you to ensure that both the indirect taxes and the taxes out of income are at the lowest possible level. Only by achieving this can you retain the biggest slice of your wealth to spend or save.

This guide is designed to highlight a range of planning opportunities, some of which expire on 30 June 2006. In particular, do please contact us to discuss:

- ▶ making the most of tax benefit opportunities
- ▶ keeping tax rates as low as possible across the family
- ▶ developing a plan for tax-efficient profit extraction
- ▶ keeping business taxes to a minimum
- ▶ minimising the tax on the sale of your business
- ▶ tax efficient remuneration package
- ▶ reducing the cost of company cars
- ▶ tax-efficient savings
- ▶ reducing the tax on your estate
- ▶ planning to reduce capital gains tax

We hope the information in this Guide will help you to focus on key issues and strategies for lowering your taxes. We invite you to contact us for planning assistance and more information about the broad range of services we offer.

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IN THIS GUIDE

- ▶ Increase your Super punch
- ▶ Business Strategies
- ▶ Strategies before 2005/06 year end
- ▶ Saving - the sooner, the better

INCREASE YOUR SUPER PUNCH

For many, the main focus is to fund a reasonable standard of living at the end of your working life.

Recent changes to superannuation are helping you do just that. Rules have been relaxed to provide a smorgasbord of strategies to boost your retirement savings and smart investors are incorporating them to meet their needs. The best strategies will depend on your personal circumstances and good advice will generally be needed to ensure you maximise the advantages and stay within the rules.

But here's a summary of some of the methods that savvy individuals are using to give their savings added punch.

THE CO-CONTRIBUTION

The super co-contribution is an Australian Government initiative to encourage eligible individuals to save for their retirement. If you are eligible and make personal superannuation contributions, the Government will match your contribution with a co-contribution up to certain limits.

Super contributions are not treated as reportable fringe benefits in assessing whether you're eligible for the Government super co-contribution. Workers who exceed the threshold and would normally miss out on the co-contribution (or plan to increase their co-contribution entitlement) can sacrifice part of their earnings for higher employer super contributions, then increase their savings further with a co-contribution.

How does it work? A \$1.50 Government contribution is made to super for each \$1 contributed by eligible employees. Employee contributions must be made after tax, and the maximum \$1500 co-contribution is available only to those earning less than \$28,000, including reportable fringe benefits. A partial co-contribution is available for people on incomes up to \$58,000.

Biggest winners: lower - income earners.

SALARY SACRIFICE

Salary sacrifice is most tax-effective for people on higher marginal tax rates. It makes more sense for a higher earner to sacrifice to super, then allocate those contributions to their lower-income spouse, than for the lower-income spouse to sacrifice from their own pay packet.

How does it work? Salary sacrifice allows employees to give up part of their income in lieu of higher super contributions, amongst other items. The benefit is that contributions come from pre-tax earnings and are also subject to the 15 per cent contributions tax instead of our marginal tax rate.

Biggest winners: higher - income earners.

SUPER SPLITTING

Super splitting provides for people to transfer up to 85 per cent of their tax-deductible super contributions and 100 per cent of their non-deducted contributions to their spouse.



A decision to split a year's contributions can be made at the end of the financial year and the first split will be allowed for contributions from January 1 this year. By participating in superannuation contributions splitting and sharing your superannuation benefits with your spouse you are allowing your non-working or low income earning spouse to accumulate their superannuation to take full advantage of their RBL.

Biggest winners: non-working spouses and people in danger of exceeding their RBLs.

UNDEDUCTED CONTRIBUTIONS

'Undeducted contributions' are contributions made to superannuation with after-tax earnings for which no tax deduction has been claimed. Undeducted contribution money is tax-free on withdrawal because it represents a return of your capital contribution.

Because undeducted contributions increase the tax-free component of your pension income, it has been popular for investors to make large undeducted contributions to super before retiring.

Once you retire, the undeducted component of your super determines the proportion of tax-free income you can receive from the pension each year.

Biggest winners: people nearing retirement who have large amounts of cash available for super.

BUSINESS STRATEGIES

Take a moment to take a step back from the minutiae of your daily business life. Ask yourself whether your business is in good shape. Make a list of:

- ▶ good and bad points about your business
- ▶ areas where improvements are possible
- ▶ the things you can do to improve the current state of your business

Draw up an action plan, with steps and a timetable, and put your plan into action to achieve the desired results.

Then make two more lists. One should contain your business goals and the other your personal goals. Compare the two and note any conflicts. You need to take account of any conflicting goals and decide how you will reconcile them. Now, why not sit down with us and talk through how you can reach your goals?

We can help you to consider:

- ▶ how you can maximise the reward you obtain from your business through improved profitability or tax-efficient profit extraction
- ▶ small changes which might make a big difference to your bottom line
- ▶ a more tax-efficient business structure
- ▶ a business valuation
- ▶ grooming your business for sale
- ▶ selling your business, or passing it on to the next generation, with the minimum tax bill
- ▶ bringing partners into your business
- ▶ motivating and incentivising your staff
- ▶ cash flow improvements and debt recovery procedures.



STRATEGIES TO CONSIDER BEFORE THE 2005/06 YEAR END

INCOME TAX STRATEGIES

- Ensure that you take advantage of franking credits.
- Assess whether *alienation of personal services income rules* apply. Is a personal services business determination required or can the rules be avoided through better planning?
- Do not delay in sending us your business and personal records – claims for relief are often time sensitive. Unless we receive your records in good time, we may not be able to ensure that the best/right claims are made in time.
- Take advantage of the government's superannuation co-contribution. The government will provide up to \$1,500 for a \$1,000 contribution made by a low income individual provided that they receive superannuation support and earn less than \$28,000 per year (the government stops making co-contributions at \$58,000).
- Borrow to invest. Borrowing can either positively or negatively gear your investments. Positive gearing means the income from your investment is greater than the interest you pay on your loan.
- Making personal contributions (subject to being self employed) up to the age-based limit (see table below) is another effective way of reducing taxable income.

Age at date of last contribution	Maximum deduction	Contributions required to obtain maximum
Under 35	\$14,603	\$17,804
30 to 49	\$40,560	\$52,413
50 and over	\$100,587	\$132,449

- Watch for deductions often overlooked by individuals such as interest on infrastructure bonds, expenses relating to income production that have a service period of 12 months or less - such as building and contents insurance on an investment property - deductible charitable donations, and plant purchases of \$300 or less for rental properties for non-business investors.

CAPITAL GAINS TAX

- Defer gains – realise gains after the end of the tax year, and delay payment of the tax for 12 months.
- Assess whether you are able to claim the CGT small business retirement exemption, which can reduce or eliminate a capital gains tax strategy and not so much at year end.
- Consider whether non-deductible costs may be included in an asset's cost base.
- Realise capital losses to offset current year gains – avoid matching problems by re-purchasing through an ISA or having your spouse buy what would otherwise be the matching shares.

STRATEGIES TO CONSIDER BEFORE THE 2005/06 YEAR END

BUSINESS TAX STRATEGIES

- Take a dividend instead of a taxable bonus from your company.
- Taxpayers who are eligible and have elected to enter the Simplified Tax System (STS) can pre-pay expenditure for up to 12 months and claim an immediate deduction. This provides an immediate opportunity to defer income tax to a later income year by prepaying expenditure such as rent, interest and insurance.
- Directors and shareholders with loans owing to companies should consider the option of paying a dividend or entering into a loan arrangement to clear the loan at year end.
- Write off bad debts before year end.
- Review the effective life of depreciable assets.
- Scrap stock and plant and equipment of nil value and no prospect of sale before year end.
- Ensure that superannuation contributions are paid by year end.
- Small business owners can take advantage of such strategies as salary sacrificing a large portion of their income, and then claiming personal tax deductions for superannuation contributions (provided they meet the 10 per cent rule). This type of strategy can provide substantial tax deductions for clients and wealth creation advantages.
- Employ your spouse or partner in your business – pay a justifiable wage and your spouse/partner can make use of any unused allowances and lower rate bands.
- Reduce the possibility of a tax bill when you leave your business – by discussing your plans with us and drawing up a tax-minimisation exit strategy.

ESTATE PLANNER

- Review your Estate Plan and Will – a review is due if there has been a birth or death; a marriage or divorce; a move abroad; a significant change in the value of your estate; a new business, or the disposal of a previous business; a retirement; or a relevant change in tax law. We can help you work through the changes to keep your estate plan up-to-date

SAVING - THE SOONER, THE BETTER

Research shows that only 26% of Australian adults have the ability and desire to save for the future.

Those who are saving are putting aside on average a mere 2.5% of their taxable income. Compare this to 20 years ago, where the average Australian was saving 11% ¹.

The secret to financial security isn't a 'get rich quick' scheme, and it isn't particularly exciting.

It's up to you to make your financial security happen, using

- a budget - identifying how much you earn and spend;
- a savings and investment plan - deciding how much you need to put away and where to invest it;
- discipline - adding to your savings regularly; and
- patience - building wealth takes time.

Talk to us about putting a plan in place to help you reach your financial goals.

¹ ABS National Accounts



WE ARE HERE TO HELP

Make good use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax-efficient investments.

We are always pleased to discuss matters with you and advise in any way we can.

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