

HOW TO SAVE TAX - 2017

Minimise your Tax
Maximise your Wealth
Build your Business

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AGENDA

Tax Saving Techniques

- Tax Rates
- Structures
- Tax tips for Individuals
- Tax tips for Businesses

Create Wealth & Save Tax

- Why invest in Property
- Why invest in Shares
- Superannuation

TAX RATES – INDIVIDUAL 2018

Current Threshold	Tax Rate
\$0 - \$18,200	0%
\$18,201 - \$37,000	19%
\$37,001 - \$87,000	32.5%
\$87,001 - \$180,000	37%
\$180,001 +	45%

Excludes Medicare Levy of 2%
Budget Repair Levy abolished from 01/07/2017

TAX RATES – NON-INDIVIDUALS 2018

Company Tax Rate

- 28.5% 2015-2016 Annual Turnover \$2mil
- 27.5% 2016-2017 Annual Turnover \$10mil
- 27.5% 2017-2018 Annual Turnover \$25mil

Superannuation Tax Rate

- 15% Accumulation phase & working
- 10% On Capital Gains (held longer than 12 months)
- 0% When in pension phase & retired

Trust Tax Rate

- 0% A trust does not pay tax

Children

- 0% Up to \$416

TAX RATES – DIFFERENT STRUCTURES

Achieving the lowest tax rate

- People on *wages* must be paid to the individual
- People in *business* can choose the business structure
 - Sole Trader
 - Partnership
 - Company
 - Trust
- Company & Trust rate may be better than individual
- A trust can distribute to a related company or any family member

TRUST V SOLE TRADER

TRUST

Profit \$120,000

Wife not working, 2 children under 18 and 1 child over 18 studying fulltime

Distribution of profit:

Wife	\$37,000	\$4,262
Child 1 (Minor)	\$416	\$0
Child 2 (Minor)	\$416	\$0
Child 3 (Adult)	\$18,200	\$0
Husband (Balance)	\$63,968	\$13,639
Total	\$120,000	\$17,901

SOLE TRADER

Profit \$120,000

Sole Trader taxed at marginal rate

Husband	\$120,000	\$34,462
Total	\$120,000	\$34,462

Tax saving by changing the structure

\$16,561

CHANGING STRUCTURES

- If you are on **wages** you have **no** choice
- If you have a **business** you have a choice
 - There are regulations in place to prevent people going from wages to **in business** and rorting the system
 - These are called the Personal Services Regulation
 - Consideration to your circumstances & discussion with your accountant is necessary before changing structures
 - In business, the sole trader and partnership structure has personal liability if you are sued (your personal assets are exposed)

PRIVATE MEDICAL INSURANCE REBATE

Rebates	Base Tier	Tier 1	Tier 2	Tier 3
Income - Singles	Below \$90,000	\$90,001-105,000	\$105,001-140,000	\$140,001 +
Income - Families	Below \$180,000	\$180,001-210,000	\$210,001-280,000	\$280,001 +
Less than Age 65	25.934%	17.289%	8.644%	0%
Age 65-69	30.256%	21.612%	12.966%	0%
Age 70+	34.579%	25.934%	17.289%	0%
Medicare Levy Surcharge				
All ages	0.0%	1.0%	1.25%	1.5%

Family income threshold increases \$1,500 per child after first child

TAX TIPS – INDIVIDUALS

- Pay the Accountant in advance pre 30 June
- Pay Interest on loans 12 months in advance
- Salary sacrifice to Super – up to contribution cap
- Superannuation Trust deeds must allow for a Reversionary Pension to avoid taxation upon the death of one person in a super fund
- Work uniforms
- Home office expenses (Power & Gas)
- Home internet
- Mobile phone
- Travel & Motor Vehicle expenses

TAX TIPS – INDIVIDUALS

- Set up offset account (good debt V bad debt)
- OR - move interest income to lower income earner
- Prepay income protection
- Buy Tablet/Laptop pre 30 June (up to \$300)
- Make donations prior to 30 June
- Self Education
- Totally IGNORE tax schemes
 - Olives, Emus, trees, films

DIV 293 – REDUCED FROM \$300,000 TO \$250,000

TAXABLE INCOME	\$240,000
Concessional contributions	19,307.80
Reportable fringe benefits	
Total assessable income for Div 293	\$259,307.80
Total assessable contributions for Div 293 (Above \$250,000)	\$9,307.80
DIV 293 TAX PAYABLE (30%)	\$2,792.34

SUPERANNUATION CAP CHANGES

CONTRIBUTION	CURRENT	FROM 1 JULY 2017
Co-contribution - \$500 max		
Income Below (full rebate)	\$36,021	\$36,813
Sliding scale up to	\$51,021	\$51,813
Non-working spouse contribution - \$540 max *		
Spouse Income Below (full rebate)	\$10,800	\$37,000
Sliding scale up to	\$13,800	\$40,000

* Contribute \$3,000 to get the full rebate of \$540

SUPERANNUATION CAP CHANGES

CONTRIBUTION	AGE	CURRENT	FROM 1 JULY 2017
Before-tax	Under 50	\$30,000	\$25,000
Before-tax	50 or over	\$35,000	\$25,000
After-tax	Under age 65	\$180,000 (\$540,000 bring-forward rule)	\$100,000 (\$300,000 bring-forward rule)
After-tax	65 or over	\$180,000	\$100,000

CATCH UP PROVISIONS FROM 2018

YEAR	18/19	19/20	20/21	21/22	22/23	23/24
Contribution	\$20,000	\$15,000	\$25,000	\$20,000	\$0	\$25,000
Remaining Cap	\$5,000	\$15,000	\$15,000	\$20,000	\$45,000	\$45,000

Only available if your account balance is < \$500,000

TAX TIPS – BUSINESS

- Write off bad debts pre 30 June
- Delay income where possible
- Bring forward expenses
- Complete a stock take at 30 June (Valuation Method)
- Window dressing prior to 30 June – review / refresh
- Prepay interest with permission of lender
- Prepay car lease (no benefit to prepay HP)
- Consider payroll tax threshold - \$625,000 (Up from \$575,000)
- Payroll Tax in Victoria - 4.85% (on wages, contractors & superannuation)
- Pay creditors if on a cash basis

TAX TIPS – SMALL BUSINESS INCENTIVES

- Turnover must be under \$10,000,000 (Increased from \$2,000,000)
- Immediate deduction for expenses less than \$20,000 (Extended)
 - Note: Must pool assets to take advantage of Small Business Incentives
- Capital Gains Tax Concessions
 - CGT 15 Year Exemption
 - CGT 50% active asset reduction
 - CGT retirement exemption
 - CGT rollover
- GST – cash accounting

TAX TIPS – BUSINESS

- Do not waste money to save tax
- Cars are long term
- Delay income by not invoicing
- Review asset schedule to write off assets
- Repay Directors drawings or loan accounts before 30 June
- Consider paying 9.5% Super before 30 June
- Speak to your accountant for a pre 30 June **review** – do this in April or May each year

WHY INVEST IN PROPERTY?

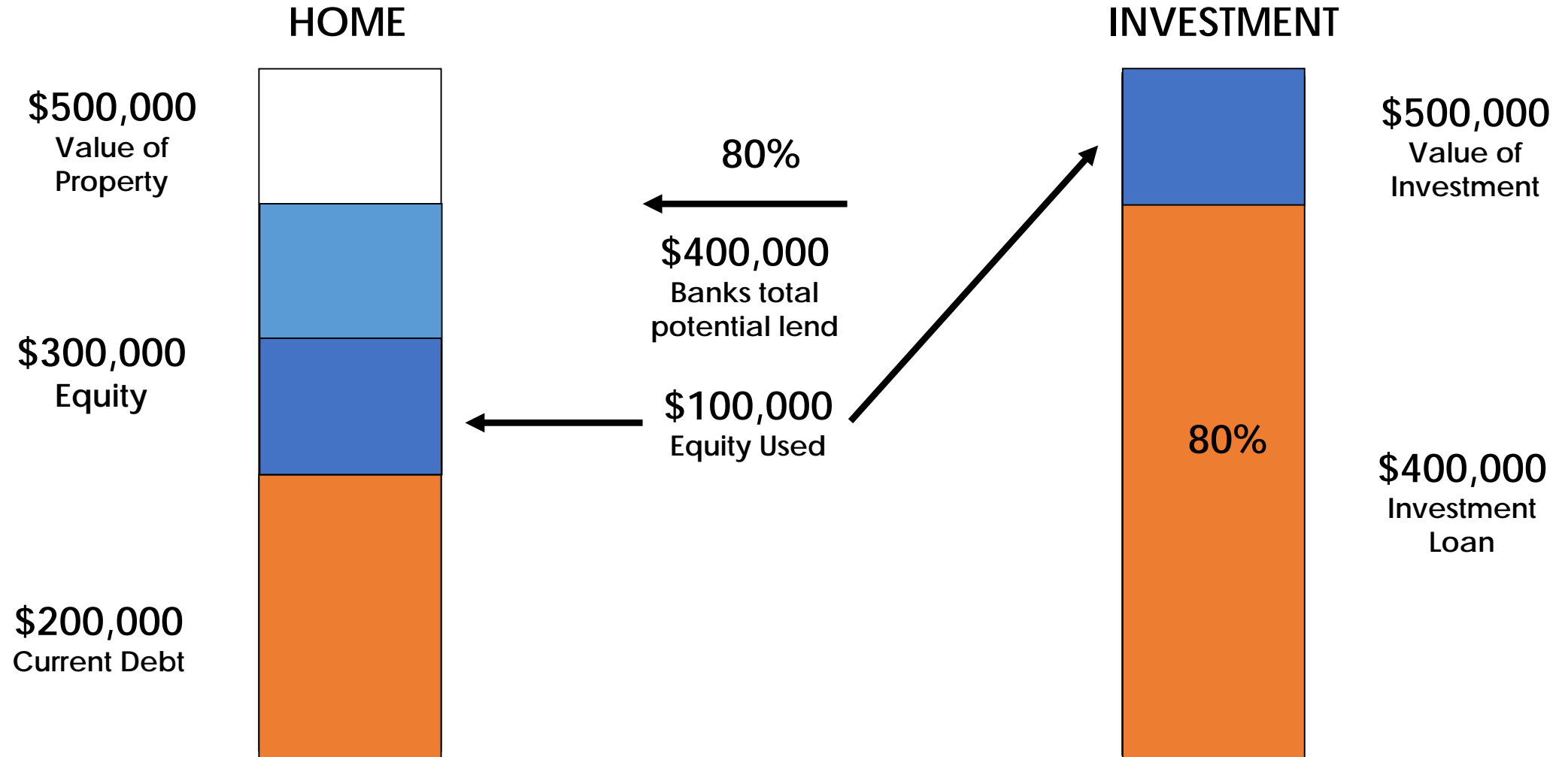
WHY INVEST IN PROPERTY?

- Rent income contributes to expenses
- Tax benefits?
 - Depreciation tax deductions
- Rental growth over time?
- Create wealth for retirement?
- Create wealth for future generations?
- Capital growth over time? – How much?

10 YEAR GROWTH - \$500,000

YEAR	3%	5%	7.2%	10%
1	515,000	525,000	536,000	550,000
2	530,450	551,250	574,592	605,000
3	546,364	578,813	615,962	665,500
4	562,754	607,753	660,312	732,050
5	579,637	638,141	707,854	805,255
6	597,026	670,048	758,820	885,781
7	614,937	703,550	813,455	974,359
8	633,385	738,728	872,024	1,071,794
9	652,387	775,664	934,809	1,178,974
10	671,958	814,447	1,002,115	1,296,871

USE THE EQUITY IN YOUR HOME



DEPRECIATION CHANGES

- Limited to outlays actually incurred by investors from 1 July 2017.
- Plant & equipment include dishwashers and ceiling fans.
- Properties purchased prior to 9 May 2017 will continue to give rise to deductions for depreciation until the investor no longer owns the asset, or the asset reaches the end of its effective life.
- Investors who purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim a deduction over the effective life of the asset.
- Subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property.

CASH FLOW ANALYSIS

COST PER WEEK TO OWN A PROPERTY?

Assumptions

Cost of Property	\$500,000
Loan – 100%	\$500,000
Interest Rate	5.0%
Rent per week	\$470
Tax Rate	34.5%

CASH FLOW ANALYSIS

	Tax Return \$	Cash \$
Rental income - \$470/week	24,440	24,440
<i>Less Expenses</i>		
Agent Fees, Body Corp etc.	5,200	5,200
Interest expense – 5.0%	25,000	25,000
Depreciation – non cash *	7,000	0
Negative geared	(12,760)	(5,760)
Tax Refund – Rate 34.5%	4,402	4,402
Cash Negative Per Annum	(8,358)	(1,358)
Cost per week (0.27% growth required)		\$26.11

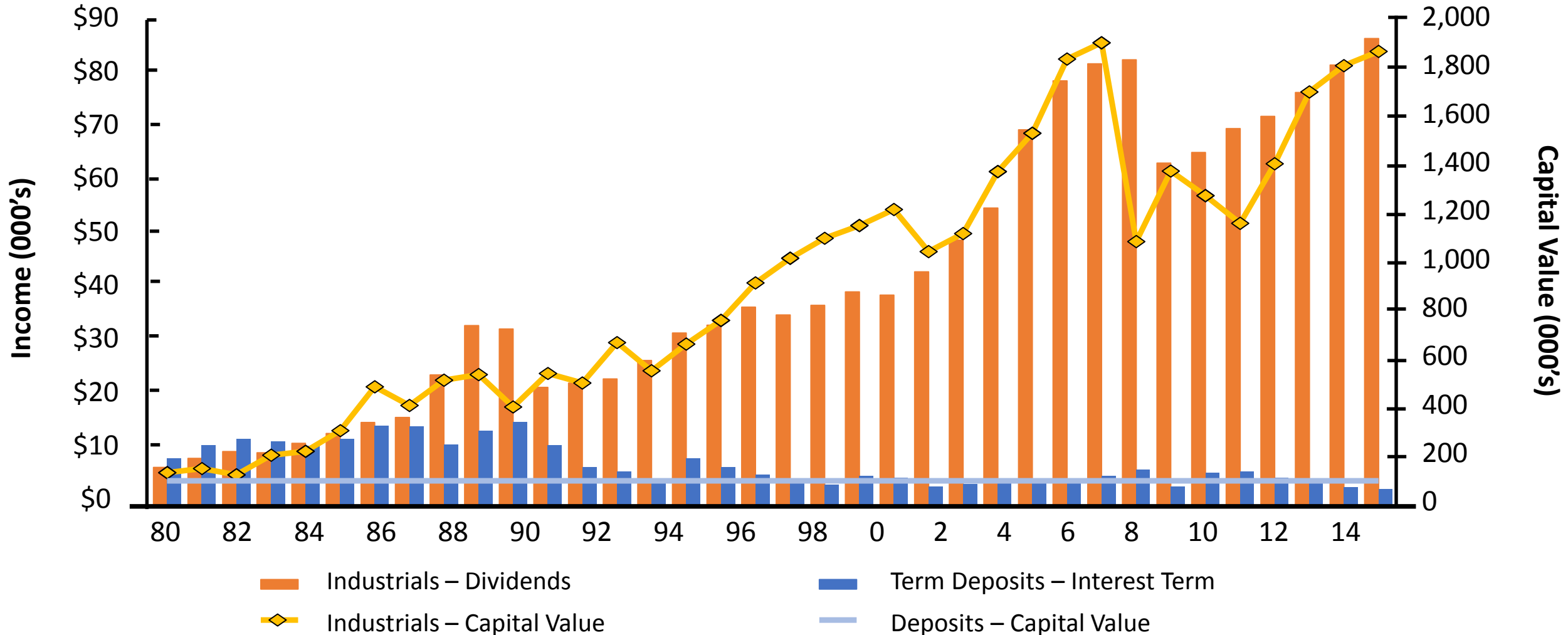
* Depreciation applicable to properties purchased prior to 9 May 2017 or new builds.

WHY INVEST IN THE SHARE MARKET?

WHY INVEST IN SHARES?

- Generally easy & quicker to convert to cash
- Dividends can create an income
- Dividends can be fully franked (tax paid)
- Historically better income than bank deposits
- Capital Growth
- Spread your risk
- Selection/mix of shares to match your risk profile
- Can borrow to 50% to purchase shares
- Losses can only occur when you sell shares

RETURN ON INVESTMENT - \$100,000 (1979-2015)



CBA SHARES POST GFC

- Purchase Price (Feb 2009) \$26.00
- Total dividends paid (Feb 2009 – May 2017) \$28.63
- Current Share Price (May 2017) \$79.00

- **Purchase price has been returned**
- **Shares now worth more than 3 times amount paid**

- Last 12 months dividend was \$4.21 (Fully Franked)

WHY INVEST IN SHARES?

- Unless you are an experienced investor you should seek the advice of a good financial planner to assist with the selection of investments
- The RJS Wealth Management team can create a **Financial Road Map** to take you from today to retirement and beyond
- Fact finder and your circumstances including risk profiling is critical on share selection

WHY INVEST IN PROPERTY THROUGH SUPER?

WHY INVEST IN PROPERTY THROUGH SUPER?

- Access to super fund money for **property investment**
- Less chance of wild downturns in market value
- No impact on your personal cash flow
- Increase diversification within your portfolio
- The Power of **Leveraging** – using the banks money
- Huge **Tax Benefits**
- Fund your own retirement – the government plan
- SMSF = control & decision making

POTENTIAL CAPITAL GROWTH BENEFIT

OPTION 1 Standard Superannuation Portfolio	
<i>Assumptions:</i>	
Own Super Contribution	\$150,000
Borrowed Amount	\$0
New annual rate of return	7.2%
Time period	10 years
Value after 10 years	\$300,000

POTENTIAL CAPITAL GROWTH BENEFITS

OPTION 2	
Purchase Property for \$500,000 and borrow \$350,000	
<i>Assumptions:</i>	
Own Super Contribution	\$150,000
Borrowed Amount	\$350,000
New annual rate of return	7.2%
Time period	10 years
Value after 10 years	\$1,000,000 less \$350,000 loan = \$650,000

POTENTIAL CAPITAL GROWTH BENEFITS

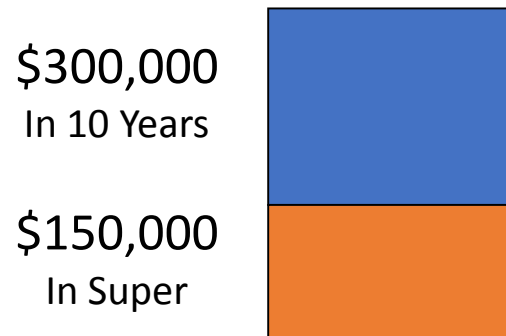
	OPTION 1 Standard Superannuation Portfolio	OPTION 2 Purchase Property for \$500,000 and borrow \$350,000
<i>Assumptions:</i>		
Own Super Contribution	\$150,000	\$150,000
Borrowed Amount	\$0	\$350,000
New annual rate of return	7.2%	7.2%
Time period	10 years	10 years
Value after 10 years	\$300,000	\$1,000,000 less \$350,000 loan = \$650,000
		DIFFERENCE = \$350,000

GEARING – 7.2% RETURN

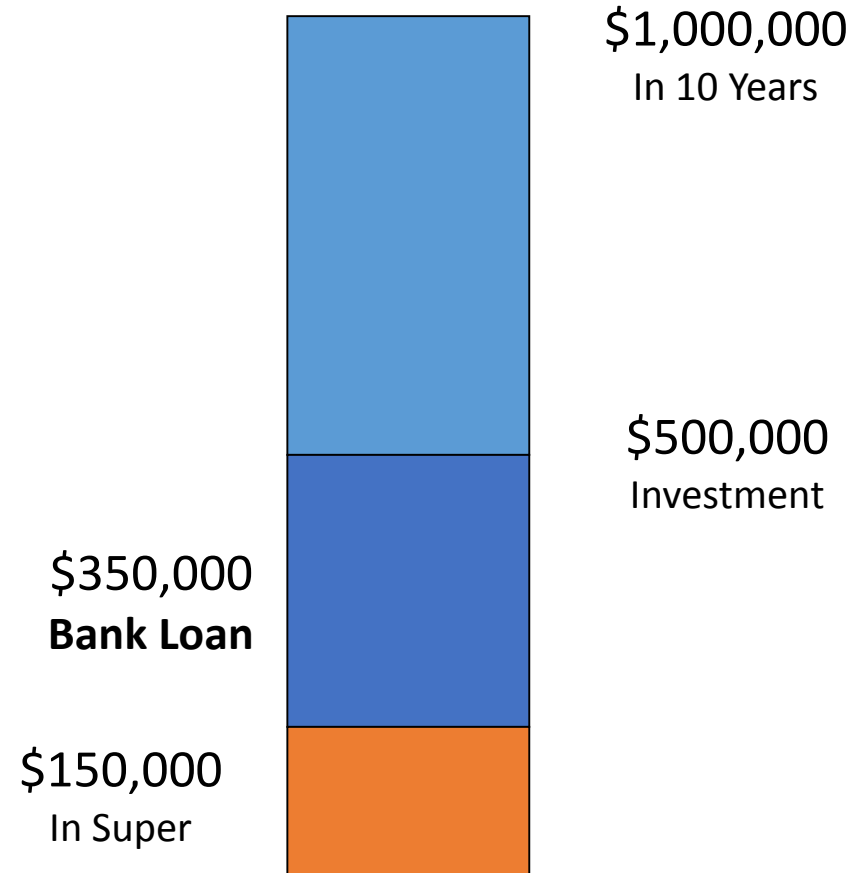
USING THE BANKS MONEY TO MAKE MONEY

- Your Super increases from \$300,000 to \$650,000
- \$350,000 better off with Gearing/Leveraging
- Rent pays the interest

NO GEARING



WITH GEARING



INVESTING IN A SMSF

- Investing in super is extremely tax effective
- Life & TPD Insurance is tax deductible in SMSF
- It is not a drain on your personal finances
- Low tax rates (0% to 15%)
- Off the plan - 10% deposit & balance on completion
- Established property, residential & commercial - OK
- But there are always risks associated with borrowing

INVESTING IN A SMSF - RISKS

Forbidden:

- Owner occupied
- Progress payments
- Student or holiday accommodation
- Can NOT rent to related parties

**NOTE – Pension Transfer
Balance Cap \$1.6 million**

COSTS & PROCESSES

We set up the company & SMSF

- Company \$1,400
- SMSF Deed \$ 800

When you buy a property we set up the company and the BARE Trust

- Company \$1,400
- Bare Trust Deed \$ 800

Ongoing annual fees paid by SMSF \$2,420*

*Includes tax return, accounts, audit, compliance

**Send us an email to get
an SMSF Information Kit.
We can check your
borrowing capacity
before proceeding.**

WHAT DO R J SANDERSON DO?

- Ensure you comply with all the regulations
- Teach, mentor, train, instruct, assist
- Compliance with ASIC
- End of year accounts
- Annual Tax return
- Audit
- Management
- Refer to Financial Strategist for review & plan
- Organise the loan – R J S Loan Solutions
- Hold your hand all the way



QUESTIONS?

THANK YOU!

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