

# STRATEGIC FINANCIAL PLANNING FOR YOUR BUSINESS

Presented by  
Rowena Thiele FCPA  
Registered Tax Agent  
Qualified Financial Planner

# ABOUT US



Financial Affairs was acquired by AB Phillips in March 2016 and is 100% owned by AB Phillips. From May 1 2017 all of our Financial Planning and Life Insurance business will be managed by Financial Affairs.

The Financial Affairs team are located in our Moorabbin office and work closely with other areas of our Financial Services team to provide clients with holistic financial solutions.

Financial Affairs AFSL 222154.



# DISCLAIMER

This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this document, you should assess your own circumstances or seek advice from a financial adviser. You should obtain and consider a copy of the Product Disclosure Statement available from your financial adviser, before you acquire a financial product.

Examples are illustrative only and are subject to the assumptions and qualifications disclosed.

# AGENDA

## HOW YOU CAN INCREASE YOUR WEALTH WITH SIMPLE STRATEGIES UTILISING THE SUPERANNUATION RULES

- We will look at our family, Chris and Marie who operate a business.
- Getting money in to superannuation before tax. We will explore some new rules for superannuation which will benefit all eligible individuals. You will also save tax!
  - Purchasing your business premises in your SMSF and then leasing.
- Protecting your wealth with a review of your risk insurance.
- The best till last!! Contributing to super after tax. Sale of your business and the CGT small business concessions

# FAMILY PROFILE - GETTING MONEY IN – CONTRIBUTION RULES -

## **Family Profile**

Chris aged 51, and Marie aged 56 have been married for 16 years and have a son Sheridan aged 16.

## **Business**

Chris and Marie run a family business - C&M Pty Ltd operating out of commercial premises which the business leases. *They would like to retire in 10 years time.*

C&M Pty Ltd has an annual sales of \$1.4m.

## **Employment**

Chris is employed in the family business full -time. Chris draws \$120,000 (packaged) out of the business each year (equivalent \$109,589 plus super).

# FAMILY PROFILE - GETTING MONEY IN – CONTRIBUTION RULES -

Marie works as a teacher part time and also works part time as a bookkeeper in the family business. Marie is the primary carer of Sheridan. Marie is paid \$40,000 plus super from her teaching and \$30,000 (packaged) (\$27,397 plus super) from C&M Pty Ltd.

## **Health**

Chris has a family history of heart disease however, at this stage Chris remains in good health. Marie is in good health. ***There are no insurances in place.***

## **Superannuation Balance**

Chris has \$220,000 in superannuation. Chris has worked as a small business owner for a number of years and has reinvested profits back into the business as working capital.

# FAMILY PROFILE - GETTING MONEY IN – CONTRIBUTION RULES -

Marie has \$80,000 in superannuation. Marie has only commenced teaching part-time 10 years' ago after having been a stay at home Mum. There are no other investment assets.

**Lifestyle Assets:** Family home is valued at \$800,000.

**Liabilities:** Mortgage on their home of \$100,000. Business loan of \$200,000 for working capital.

**Recent information:** The landlord has indicated that he would like to sell his premises for \$550,000.

# GETTING MONEY IN – CONTRIBUTION RULES

## Pre tax contributions – SUMMARY OF CURRENT RULES

- Examples are compulsory employer contributions, salary sacrifice contributions and personal deductible contributions.
- From 1 July 2017, the maximum amount you can put in is \$25,000 each year for all eligible persons.
- Make sure your current salary sacrifice arrangements are modified to reflect these changes effective 1 July 2017.



# GETTING MONEY IN – CONTRIBUTION RULES

## Tax deductible contributions

- From 1 July 2017 there is an opportunity to improve salary sacrifice for employees whose employers deduct weekly/fortnightly but only pay quarterly
- Everyone will be able to claim an income tax deduction for personal superannuation contributions regardless of your employment arrangements.
- Abolishes the 10% self-employment test.
- Individuals aged 65 to 75 must meet the work test to be able to make personal contributions.

# GETTING MONEY IN – CONTRIBUTION RULES

	Chris	Marie
Add 2% Medicare levy to tax rate	39% tax bracket	34.5% tax bracket
SG Contributions (9.5% super guarantee)		
C & M Pty Ltd	\$10,411	\$2,603
Marie Teaching		\$3,800
Grant total super contributions	\$10,411	\$6,403
Personal super contribution or salary sacrifice		
Strategy:		
Boost to \$25,000 each to maximise limits		
Options:		
salary sacrifice; or		
super contribution before June 30 directly into your super fund		
Additional contributions	\$14,589	\$18,597
Superannuation Concessional Cap	\$25,000	\$25,000
Tax saving per person		
15% tax going into superannuation	15.00%	15.00%
Marginal tax rate plus Medicare Levy	39.00%	34.50%
Net Percentage saving	24.00%	19.50%
<b>Dollar value saved in tax but preserved in super until satisfy condition of release</b>	<b>\$3,501</b>	<b>\$3,626</b>

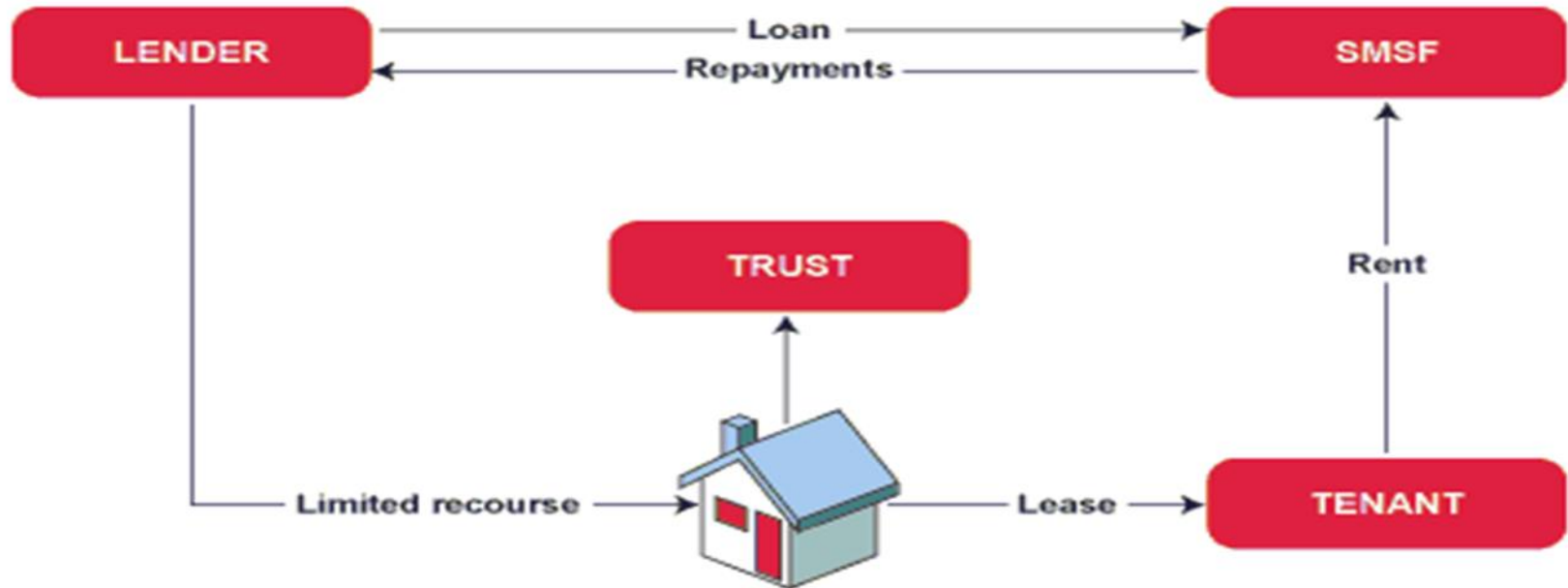
# PURCHASE YOUR BUSINESS PREMISES USING A SELF MANAGED SUPER FUND

An SMSF (self managed super fund) enables members to purchase property in superannuation. It is a unique opportunity which is legal!

Benefits of purchasing property in super:

- Diversification of assets in an investment portfolio in superannuation.
- Positively geared property investments (no debt) in super can generate an additional revenue stream to fund further investments.
- Can purchase commercial premises or a residential property.
- Chris and Marie can purchase the premises in their SMSF. C&M Pty Ltd can then pay rent to the SMSF which in turn will pay off the loan.

# PURCHASE YOUR BUSINESS PREMISES USING A SELF MANAGED



# PURCHASE YOUR BUSINESS PREMISES USING A SELF MANAGED

- Use rental income and super contributions to assist in repaying the loan.
- A limited recourse loan (IF YOU NEED TO BORROW) is limited to the secured property itself and all other assets of your SMSF are protected.
- Negative gearing benefits - offset loan interest and expenses against rental income.
- If commercial premises is then sold when members are in pension phase there will be no tax payable on the sale of this asset in the SMSF.
- All net rental income will be exempt from tax in pension phase.

# ADVANTAGES OF A SELF MANAGED SUPER FUND

## Self Managed Super Funds (SMSF)

### Advantages of an SMSF

- Greater control of managing your super and your investment options.
- Tailor an investment strategy that suits your circumstances.
- Wide range of investment options including shares and direct property.
- Tailor an estate plan with your family with no more than 4 members in the fund.
- Tax rate of 15% on earnings in the accumulation phase.

# RISK INSURANCE

- You have worked really hard to get to where you are.

## Analysis of the risks for Chris

- Death
- Disability
- Trauma Event

What Happens if?

Cover	What Needs Protection	How Much
Life/Death	Debt (\$300,000) Replacement of income (\$90,000 for 10 Years)	\$994,656
Disability	Debt (\$300,000)	\$300,000
Income Protection	Replace Income until able to work again.	\$90,000
Trauma	Medical Expenses	\$100,000

# GETTING MONEY IN – CONTRIBUTION RULES

## After tax contributions

- Can put in up to \$100,000 each year or up to \$300,000 bring forward if under 65. These are called your non-concessional caps.
- From 1 July 2017 the ability to contribute to super is constrained not only by a reduction in how much you can put in but also by your total super balance as at prior 30 June.
- Eligibility thresholds:
- **Total super balance >\$1.6m then no further non concessional contributions**



# SMALL BUSINESS CONCESSIONS- SALE OF BUSINESS

## What are the Small Business CGT concessions?

- This is the reward for all your hard work in growing your business.
- Tax concessions available on the sale of your business to reduce your final tax payable to nil in some cases.
- It may be that you do not have to pay any tax at all!
- Gives you options for your retirement.
- You have the ability to contribute to superannuation some/all of the proceeds of the sale of your business (subject to rules).

# WHAT IS A “SMALL” BUSINESS ENTITY “SBE”

If you have a business, how do you know if it's small?

- **Aggregated turnover/sales** of less than \$2m (including connected entities)
- **Maximum net value** of CGT assets is \$6m (test for eligibility)
  - Includes all CGT assets of individual and connected entities unless specifically excluded

*Sum of market value of CGT assets – liabilities related to those assets*

# WHAT ARE THE CONCESSIONS?

## Cont.

15 year exemption – one of your options

Disregard entire gain if:

- Basic conditions are met.
- You continuously owned the asset for 15 years
  - If the asset is an interest in company/trust – the company/trust had a significant individual for at least 15 years
- **AND** At the time of the CGT event, either
  - You are over 55 and the same happens **in connection with your retirement**
  - You are permanently incapacitated at the time of the event

# WHAT ARE THE CONCESSIONS Cont.

## 15 year exemption cont.

- The entire capital gain can be disregarded. You also do not have to apply any capital losses and these can be used for other gains.
- The 15 year exemption proceeds can be contributed to super without counting towards your non concessional caps.
  - Up to \$1.415m of the proceeds from the sale can be contributed to super as your cap.

# WHAT ARE THE CONCESSIONS Cont.

## ANOTHER OPTION - Small Business Retirement exemption - \$500,000 (lifetime limit)

You may choose to disregard **all or part of a capital gain** under the small business retirement exemption if you satisfy certain conditions.

- **You do not need to terminate any activity or cease business. Not connected with your retirement!**
- **This concession allows you to provide for your retirement.**
- You may choose the retirement exemption if you are not eligible for the 15-year exemption.

# WHAT ARE THE CONCESSIONS Cont.

## Retirement exemption - \$500,000 (lifetime limit) Cont.

Can disregard up to \$500,000 of net gain if

- Basic criteria met
- If under age 55 at the time, amount exempted if contributed to super
- If over 55 the payment may be received directly without a requirement to contribute this to super.
- This is optional relief, applied after the following:
  - Mandatory retirement exemption
  - Mandatory standard 50% discount (CGT)
  - Optional 50% active asset discount

# IN SUMMARY

## Small business contributions summary

The 15 year exemption and retirement exemption amounts can be contributed to super without counting towards the Non Concessional Contribution cap (NCC)

- 15 year exemption – up to \$1.415 million of the **proceeds** from the sale (life time cap) **PER MEMBER**
- Retirement exemption – up to \$500,000 of the **gain** from the sale (life time cap) **PER MEMBER**

# CONTRIBUTING PROCEEDS OF SALE TO SUPERANNUATION

- C&M Pty Ltd is sold in a few years' time for \$3 million. Assumption – they have not owned their business for more than 15 years.
- Capital gain from the sale of the business can be rolled into your SMSF subject to the CGT small business concession contributions limits (as discussed previously).
- Two lots of opportunities to contribute to super via:

Current non concessional cap is \$100,000 per annum. Or \$300,000 three years bring forward. ***New rules from 1 July 2017 and:***

- Lifetime CGT retirement exemption limit of \$500,000 **per member**. This is in addition to the current non concessional cap.



# CONTRIBUTING PROCEEDS OF SALE TO SUPERANNUATION

What might this look like (assumption that Chris and Marie have not contributed more than \$100,000 of personal super contributions in each of the last 3 years):

Each member can contribute:

Chris (bring forward 3 years non concessional)	\$300,000
Marie (bring forward 3 years non concessional)	\$300,000
Chris CGT retirement exemption	\$500,000
Marie CGT retirement exemption	\$500,000
<b>Grand total contributions into super combined</b>	<b>\$1,600,000</b>

Owning your business has major benefits for getting money into super. With the new regime commencing 1 July 2017 there will a dramatic reduction in how much you can get into super.

# IN SUMMARY

- Your business has become **more valuable** with these changes
- For many business owners their business is their superannuation/retirement
- There are very limited opportunities to contribute to super going forward with changes of government policy
- Plan to retire
- Your **Financial Advisor** should be your first port of call to help you get there
- Set your retirement goals and objectives to help you succeed when business planning