FORTREND SECURITIES

Smart Tax &
Financial Strategies

By

Joel Hewish

B.Bus (Bank & Fin), GDipAppFin, GCertFinPlan, SA Fin

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Taxation Advice Disclaimer

We are not Tax Agents or Accountants and can not and do not provide you with Taxation advice. While we can provide you with strategic planning advice, we are restricted from providing you with specific taxation advice and from helping you file your tax return.

What I'll Cover

- Fortrend Securities in 2010 and beyond

Topics to be discussed

- Some key points
- Government co-contribution
- Transition to retirement
- Residential property borrowing strategy
- Business real property
- Commercial property borrowing strategy
- Business succession planning
- Estate Planning (Due to time constraints will be covered in future seminars)

Fortrend Securities 2009

- Provides advisory and dealing services in:
  - Internationally Listed Shares
  - Fixed Interest Securities
  - International Derivatives
  - Listed Property
  - Money Markets
  - Foreign exchange
  - Margin Lending
- Fortrend Securities was the first company in Australia (1992) to be granted a licence to advise and deal in international equities when the law was changed.
- First company in Australia to launch online trading in international equities
- Provide direct equities access to over 35 international markets

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Fortrend Securities 2010

Fortrend Securities - Wealth Management established 2010

Investment Advisory

- Australian Private Client Investment & Listed Securities Advisory & Dealing service in:

  - Australian & International Listed Securities
  - Australian & International Listed Derivatives
  - Listed and Unlisted Managed Funds
  - Direct Property
  - Strategic and Tactical Global Portfolio Asset Allocation Advice
  - Australian & International Consolidated Administration & Reporting

Fortrend Securities 2010

Fortrend Securities - Wealth Management established 2010

Financial Advisory

- Australian Private Client Financial Advisory providing financial advisory services in:
  - Financial Planning
  - Strategic Tax Planning
  - Superannuation & SMSF member and trustee advice
  - SMSF Administration & Compliance
  - Estate Planning
  - Retirement Planning
  - Social Security
  - Wealth Protection / Personal Insurance
  - Debt Management, Structuring & Origination
  - Business Succession Planning

Super Contribution Basics

There are 2 Types of contributions

- Pre-tax AKA Concessional Contributions (CC)
  - 9% Superannuation Guarantee
  - Voluntary Employer Contributions (above 9% SG)
  - Salary Sacrifice
  - Personal Member Contributions (Self Employed)

- Post-tax AKA Non-Concessional Contributions (NCC)
  - Personal Member Contributions (no tax deduction claimed)
  - Spouse contributions
  - Contributions in excess of (CC) cap
  - Amounts transferred in from a foreign superannuation/pension fund

Note: Most NCCs are typically funded via the sell down or transfer of assets held outside of superannuation

Super Contribution Basics

Concessional Contributions

- If under age 50 - $25,000 (indexed to AWOTE in $5,000 increments)
- If over age 50 - $50,000 not indexed. Expires 30 June 2012 (Proposed Changes).

Non-Concessional Contributions

- 6 x the CC Cap = $150,000 per annum
- Can evoke bring forward rule and bring forward extra 2 years i.e. can contribute up to $450,000 over a 3 year period.

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Re-capping Benefits of Superannuation

ACCUMULATION PHASE

- Pre-tax contributions tax rate capped at 15% v's max 46.5% MTR
- Investment income generated in accumulation phase taxed at 15% v's max 46.5% MTR
- Capital gains held < 12 mths taxed at 15% v's max 46.5% MTR
- Capital gains on assets held > 12 mths taxed at 10% v's max 23.25%

Re-capping Benefits of Superannuation

PENSION PHASE

- Investment income is received tax free within fund v's max 46.5% MTR
- Capital gains on assets held < 12 mths tax free v's max 46.5% MTR
- Capital gains on assets held > 12 mths tax free v's max 23.25% MTR
- Aged between 55-59 – taxable component of income drawn from super receives a 15% tax offset against MTR
- Aged 60+ income drawn from super received tax free
- And Self Managed Superannuation Funds now offer even more flexibility than previously

Super should form a crucial element of your long term wealth creation plans!!!

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Some Key Points

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Concessional Contribution Caps Halved

Age	2008/09	2009/10 – 2012
Under 50 (a)	$50,000	$25,000
50 or over (b) Transitional arrangements till 30 June 2012	$100,000	$50,000

Excess contributions will attract an additional penalty tax of 31.5% above the 15% contribution tax rate. Effective tax rate of 46.5%. Excess counts towards to Non-Concessional Contribution Cap

(a) These thresholds are indexed to AWOTE in increments of $5,000 (rounded down)

(b) These thresholds are not indexed

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Following Henry Review - proposed BUT not yet law

Age	2010/11 & 2011/12	2012/13 and beyond
Under 50	$25,000	$25,000
50 or over Super Balances > $500,000	$50,000	$25,000
50 or over Super Balances < $500,000	$50,000	$50,000

Potential Strategy

Spouse Contribution Splitting*

(Suitable for couples where one partner is the dominant income earner)

- Maximum of 1 spilt/rollover per financial year
- Can only split/rollover concessional contributions received for FY.
- Rollover is made outside of CC & NCC Caps.
- Receiving spouse must be < 65 and must not be retired between preservation age and 65.
- Can split/rollover up to the lesser of 85% of Concessional Contributions received or the Concessional Contributions Cap for that financial year.

Potential Strategy Benefit - Allows splitter to maintain a lower balance and take advantage of higher CC Cap for longer under proposed eligibility rules i.e. Over 50 + < $500,000 in Super = $50,000 CC Cap

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** Expect some restrictions around strategy*

Another Potential Strategy

TRIS withdrawals after age 60 or ABP withdrawals after 65 and re-contribute to spouses fund*

- In theory could withdraw benefits entirely tax free and reduce balance.
- Make Non – Concessional Contribution entirely tax free to spouse.
- Primary income earner potentially becomes eligible for higher cap.
- Potentially convert a taxable component to a tax free component inside spouses fund

There is the potential for significant planning opportunities and substantial long term tax savings if planned for correctly. However, expect some restrictions.

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New Rules Regarding Government Co-Contribution

Eligibility:

- Must make a Non-Concessional Contribution to a complying fund during the FY.
- 10% + of income must come from employment or business income.
- You must lodge an income tax return for that year (GCC paid 60 days after lodgment).
- < 71 years of age on last day of Financial Year (and meet work test if over 65).
- Do not hold a temporary resident visa.
- Income less than $31,920* receives full 100% matching rate
- Income between $31,921* - $61,920* reduces 3.333 cents for every $1 over 31,920.

Rules are current for 2010/11 Financial Year & 2011/12

*Indexed to AWOTE for 2012/13 FY and beyond.

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New Rules Regarding Government Co-Contribution

Contribution year	Old Matching Rate %	Max. co-contribution	New Matching Rate	Max. co-contribution
2008/09	150%	$1,500	150%	$1,500
2009/10	100%	$1,000	100%	$1,000
2010/11	100%	$1,000	100%	$1,000
2011/12	100%	$1,000	100%	$1,000
2012/13	125%	$1,250	100%	$1,000
2013/14	125%	$1,250	100%	$1,000
2014/15 onwards	150%	$1,500	100%	$1,000

Co-contribution Strategy

Case study

- Kate is aged 40
- Earns salary of $28,000 pa
- Considering investing $1,000 pa for 20 years
- What are the long term benefits?

Co-contribution Strategy

Main Assumptions

- 20 year comparison based on an after-tax investment of $1,000 pa
- Does not take into account CPI adjustments to thresholds
- The pre-tax investment return is 9.05% pa (split 4.65% income and 4.4% growth)
- Income is 32% Franked

Additional Assumptions

- Co-Contribution Strategy Only attracts a co-contribution
- All figures are after income tax (at 15% in super) and no crystalised capital gains
- Rates are assumed constant over the investment period
- No lump sum tax is payable by Kate as she will be age 60 in 20 years time
- Income increase with AWOTE at 3.0%

Co-contribution Strategy

Case study

- **Kate is aged 40**
- **Earns salary of $28,000 pa (SGC 9%)**
- **Plans to invest $1,000 pa for 20 years**
- **Considering making Non-Concessional Contribution to obtain a Co-Contribution**

	Without Co-Contribution	Invest in super (AFTER Budget)	Benefit of Co-Contribution Strategy
Co-contribution – year one	Nil	$1,000	$1,000
Value of superannuation after 20 years	$132,969	$216,859	$83,890 (Even though only $20,000 more was invested)

Note: Simulation does not take into account benefits of CPI adjustments to thresholds

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Transition to Retirement Pensions

What are they?

- A form of access to your superannuation benefits that enable you to receive a tax-effective income stream
- Commenced with superannuation money
- Must be aged 55+
- Income drawn is subject to annual limits of between 4% and 10% of account balance pa
- Lump sum withdrawals only allowed in certain circumstances i.e. Death or meeting another condition of release.

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Transition to retirement strategy

For employees

Pre-tax salary

(Salary sacrifice)

Super Fund

Transition to Retirement Income Stream

TRIS payments replace reduced salary

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Illustration of Basic Benefits Age 55 – 59 (Using TRIS)

Case Study

- Geoff earns $100k per annum (excl. Super Guarantee)
- Tax rate of 38.5%
- Has the capacity to pass an additional $41k per annum of income through super ($50k less 9% Superannuation Guarantee)
- Has the option of taking it cash in hand or passing it through super. What is the best option.

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Age 55 – 59 (Using TRIS)

SIMPLE EXAMPLE: ACTUAL OUTCOME WILL VARY SLIGHTLY IN REAL LIFE DUE TO EFFECT OF MARGINAL TAX RATES

Geoff receives $41k pa rather than contribute to Super

Geoff falls into the 38.5% MTR

Geoff receives $25,215.00 after tax

Geoff taxed @ 38.5%
And pays $15,785.00 in tax

Geoff contributes $41k pa to Super

$41k taxed @ 15.0%
And pays $6,150 in tax

Super fund receives $34,850.00

Geoff taxed @ 38.5%
Less 15.0% tax offset
(Effective MTR of 23.5%)
Tax paid $8,189.75

Geoff receives via TRIS $26,660.25

Total tax paid $14,339.75

Geoff is *<u>$1,445.25</u>* per annum better off by contributing money to super and taking a TRIS than receiving income directly.

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Age 60+ (Using TRIS)

SIMPLE EXAMPLE: ACTUAL OUTCOME WILL VARY SLIGHTLY IN REAL LIFE DUE TO EFFECT OF MARGINAL TAX RATES

Geoff receives $41k pa rather than contribute to Super

Geoff falls into the 38.5% MTR

↓

Geoff receives $25,215.00 after tax

Geoff taxed @ 38.5%
And pays $15,785.00 in tax

Geoff contributes $41k pa to Super

$41k taxed @ 15.0%
And pays $6,150 in tax

↓

Super fund receives $34,850.00

Can withdraw funds entirely tax free.

↓

Geoff receives via TRIS $34,850.00

Total tax paid $6,150.00

Geoff is *<u>$9,635.00</u>* per annum better off by contributing money to super and taking a TRIS than receiving income directly.

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Through the brackets

How does that same situation play out through the various other tax brackets and ages using Marginal Tax Rates?

Age	Annual Salary	Marginal Tax Rate	Total tax paid on net income received	Total tax paid on TRIS strategy net income received	Immediate Tax Saving*
55 – 59	$70,000	31.5%	$15,600.00	$14,304.75	**$1,295.25**
55 – 59	$130,000	38.5%	$38,000.00	$36,649.93	**$1,350.07**
55 – 59	$200,000**	46.5%	$66,550.00	$64,905.70	**$1,644.30**
60 +	$70,000	31.5%	$15,600.00	$8,494.50	**$7,105.50**
60 +	$130,000	38.5%	$38,000.00	$28,999.50	**$9,000.50**
60 +	$200,000**	46.5%	$66,550.00	$56,772.00	**$9,778.00**

*Assumes the taxpayer has the capacity to contribute up to $50,000 transitional cont cap and has a super fund balance that allows him to supplement income.

**Assumes employer pays SGC up to maximum salary limit of $168,880 pa and makes no further contributions thereafter for that year.

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BUT THAT'S NOT ALL

- Any income or crystallised capital gains generated from assets used to support the payment of a superannuation income stream are received *ENTIRELY* tax free, within the fund, for the life of the income stream.

PROPERTY BORROWING STRATEGIES

Alliance Partnership with Venture Advisory

Fortrend Securities is pleased to announce that it has teamed up with SMSF Property Strategy Specialist

Venture Advisory

Venture Advisory specialises in:

- SMSF Residential Property Borrowing strategies
- SMSF Commercial Property Borrowing strategies

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Other Highly Recommended Property Professionals

- James Buyer Advocates
- JPP Buyer Advocates
- Sharp Finance Group

SMSF borrowing restrictions

Superannuation Funds & SMSFs are restricted from borrowing money, or maintaining a borrowing of money, except where it is required to:

- Pay a beneficiary – Can't exceed 90 days and 10% of fund value
- Pay a tax or surcharge – Can't exceed 90 days and 10% of fund value
- Cover unforeseen settlement of securities transactions – Can't exceed 7 days and 10% of fund value

AND

- <u>Where the acquisition of an asset is conducted under a complying Non-Recourse Loan arrangement</u>

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SMSF borrowing restrictions

Definition of a borrowing:

Is an arrangement with two main characteristics

1 – A temporary transfer of money from one entity (the lender) to another (the borrower), and

2 – An intention or requirement for the borrower to repay the amount to the lender.

Note:

- Money does not strictly have to be repaid
- i.e. transfer of an asset back to lender or borrowers default still constitutes a loan agreement

SMSF borrowing restrictions

Does this constitute a borrowing?

Case studies:

- SMSF bank account becomes overdrawn – YES - Transfer of funds with obligation to repay
- SMSF utilises a margin loan – YES – Transfer of funds with obligation to repay
- Contracts for difference – NO – It's a contractual arrangement to make additional payments if the price moves against you. Payment of deposit and a contractual liability does not mean money has been transferred and does not represent repayment of amounts borrowed.
- Reimbursement of payments – No – E.g. Geoff pays accountant personally for SMSF fees and SMSF reimburses Geoff. No temporary transfer from Geoff to SMSF for repayment or SMSF to Geoff for repayment.

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SMSF borrowing restrictions

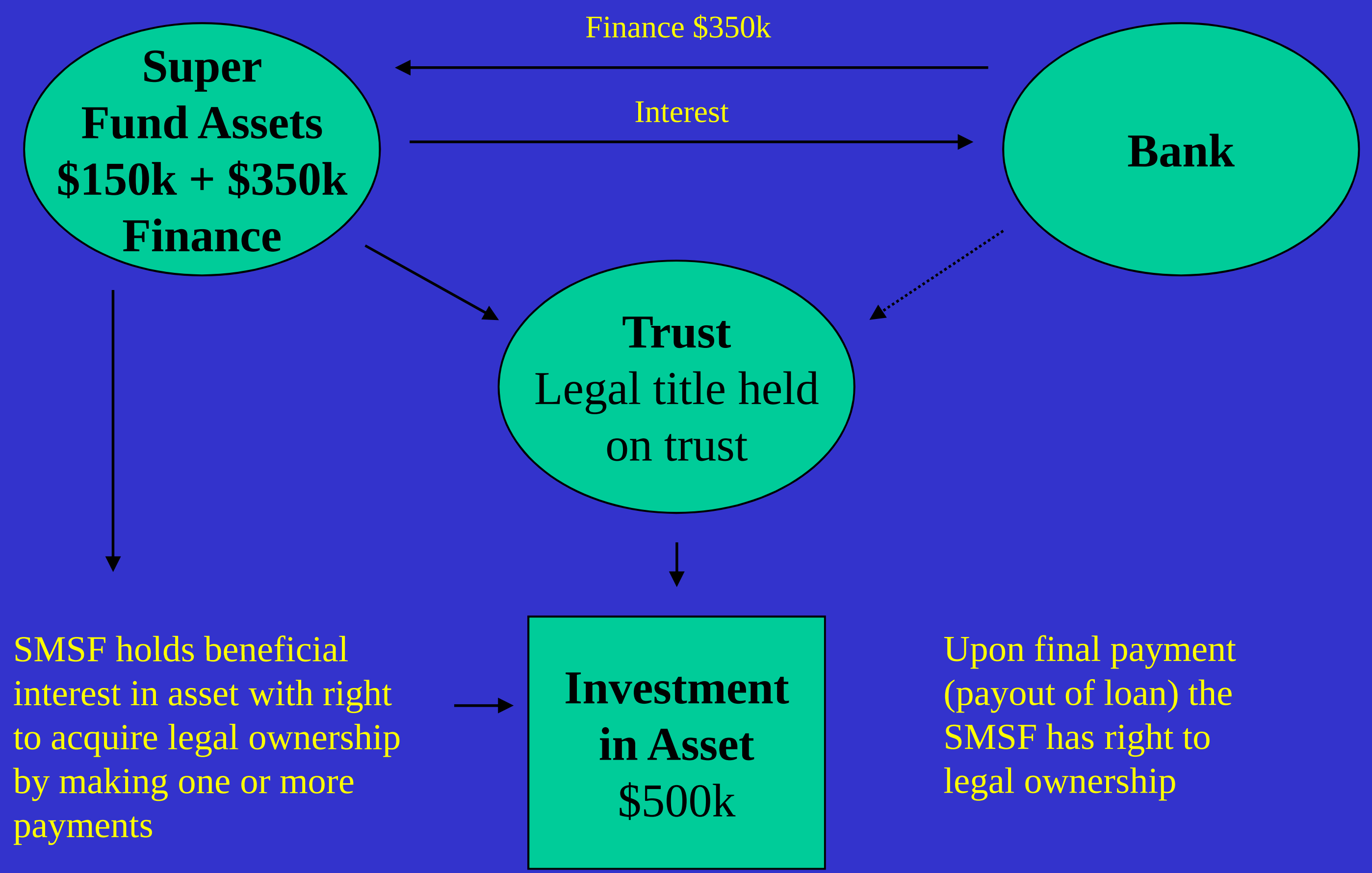
Exception to borrowing rules:

Non-Recourse loan arrangement

- Must purchase asset on trust with SMSF holding beneficial interest
- Must have RIGHT, but not obligation to acquire legal ownership through payment of final instalment
- Lenders recourse is limited to the underlying asset on default
- Must be a newly acquired asset not existing SMSF asset

**Same deductibility principals apply within super as for outside

Investment Loan – Limited Recourse



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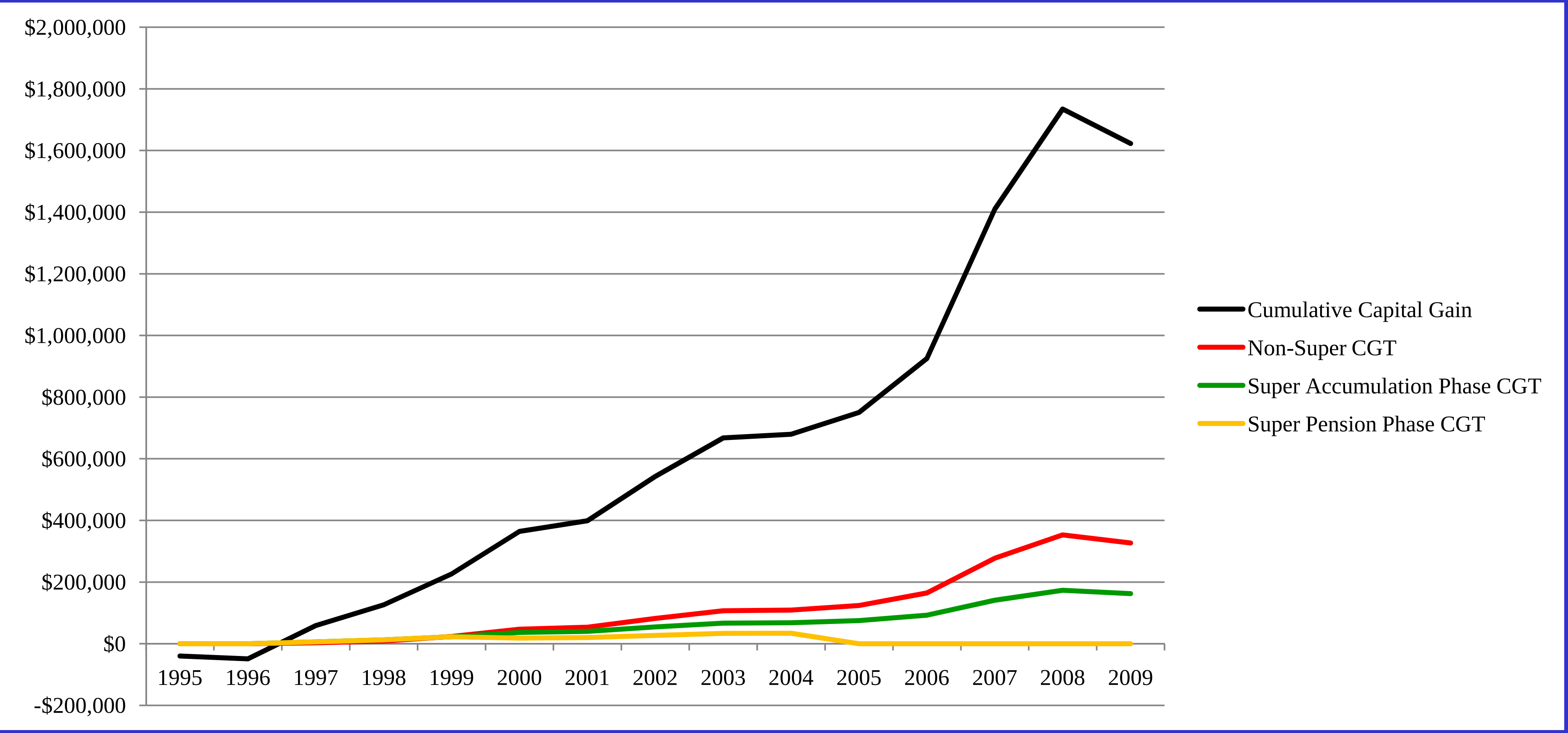
Case Study – Property in Hawthorn since 1995

ASSUMPTIONS

- Husband and Wife aged 50 and 45 respectively.
- Property held in joint names outside superannuation – 50% ownership each.
- Property owned by a Self Managed Superannuation Fund with both husband and wife as members.
- $500,000 dollar property borrowing 70% or $350,000.
- $150,000 equity available for investment
- For pension demonstration its assumed at age 55 each member commences a superannuation pension stream.
- Property growth rates based on median house prices for Hawthorn since 1995 to 2009.

Using Hawthorn as an example since 1995



- 2009 Non-Super CGT = $326,973
- 2009 Super Accumulation Phase CGT = $162,268
- 2009 Super Pension Phase CGT = $0

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Property Data Source: James Buyers Advocates

Business Real Property

First Some Background on why BRP is a big deal

- SMSF trustees or investment managers cannot acquire assets from related parties i.e. members, personal assets of trustees, family members

- SMSFs in-house assets cannot exceed 5% of the total fund assets.

  In-house assets include:

  - Loans made to a related party

  - An investment in a related entity, and

  - The lease of a fund asset to a related party, *<u>EXCEPT WHERE THAT ASSET IS BUSINESS REAL PROPERTY</u>* (or another exempted asset).

- Aim to discourage super transfers being used to manipulate transfer prices and ensure super is used for retirement purposes only

Business Real Property

Definition of Business Real Property:

- Any freehold or leasehold interest in real property,
- Any interest in Crown land (other than a leasehold interest), that can be assigned or transferred, or
- Any other interest prescribed in the regulations

Plus

- Property must be used wholly and exclusively in one or more businesses

Important note for primary production businesses

- Primary production properties meet the standard for BRP if it is used primarily for business purposes, and
- Any dwelling or area that is used primarily for domestic or private purposes does not exceed two hectares

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Business Real Property

Strategic Opportunity:

You can transfer your existing BRP into SMSF

- This can be done via the in-specie transfer of units in unit trust or cash proceeds via a series of NCCs

- If planned correctly, Husband and wife could potentially transfer in $3,510,000 via NCC and CGT Cap Contributions (if applicable).

Example:

30 June 2011 – Transfer 2 x $150,000 via NCC for Husband & Wife

1 July 2011 – Transfer 2 x $450,000 via NCC for Husband & Wife

1 July 2011 – Transfer 2 x $1,155,000 Capital for Husband & Wife (Via CGT Contribution Cap)

Small Business CGT Concessions could significantly reduce your CGT liability and even reduce it to zero.

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Commercial Property Strategy

Fortrend Securities in conjunction with Venture Advisory is pleased to announce the release of a very powerful SMSF Commercial Property Strategy.

- **Today only providing a brief outline**
- **More information about the strategy and if it can work for you can be received by booking in for a free consultation.**

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Commercial Property Strategy

Core idea:

- Allow investors to acquire capital assets using tax deductible superannuation contributions, and obtains the investor the benefits of any negative gearing on the investment in the SMSF.

- **Major points:**

- Strategy still utilises a unit trust/bare trust to acquire the property.
- Funds required to pay for the property are provided by the you investing in the trust, in turn the trust issues units to you.
- Investor borrows' the amount required for the investment via a specifically tailored “Big4” bank loan to the investor (only one provider is able to do so)
- The unit trust will not mortgage it’s assets to provide security, rather the investor will provide a legal mortgage to the financier over it’s units in the trust to a 70% LVR level.
- SMSF invests in the unit trust also receiving units in return. As the trust does not require the investment, you will be in a position to redeem your units and use this redemption to repay the loan!! (the SMSF makes a creeping acquisition of units each

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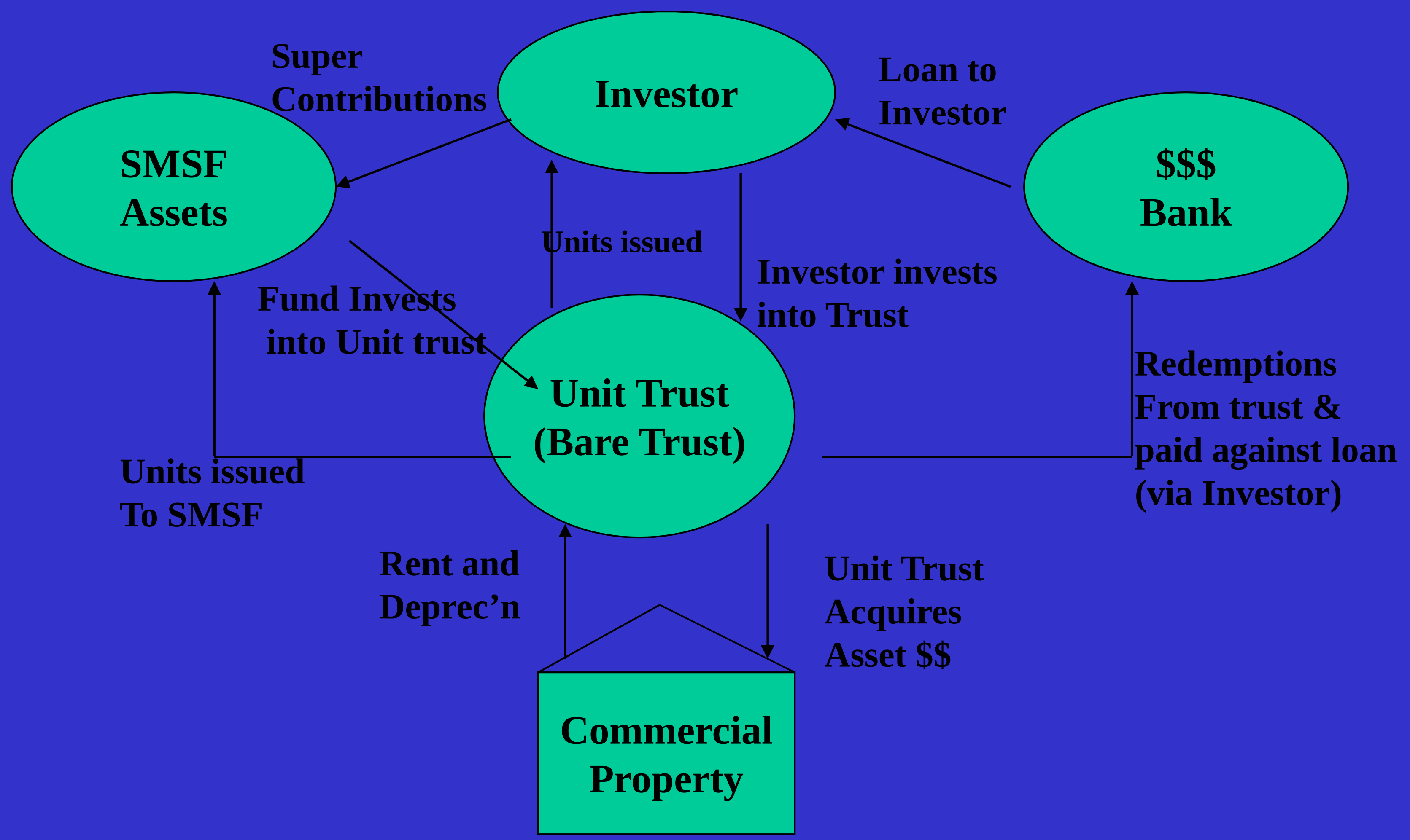
Commercial Property Strategy



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Commercial Property Strategy

Major benefits:

- Allows investors to acquire capital assets using deductible contributions and allow tax benefits for the investor and not the SMSF.
- Investor only requires 30% of security over other assets (cash/property)
- Certificate of Title (CT) not given held by financier on transaction (only Investors units in the trust)
- Higher rental income level from commercial property (Avg. 7-8%pa) V’s residential
- Higher depreciation benefit enables greater trust redemptions to accelerate loan repayment together with rental (SMSF will acquire property quicker).
- Utilising a unit trust allows for increased flexibility around disposal of assets.
- Superannuation provides a very high degree of asset protection from creditors.

Business Succession Planning

What is it?

- It is a process designed to ensure the continued effective performance of an organisation by making provision for the development and replacement of key people overtime.

Why have a business succession plan?

- Because for most people, their business is their retirement plan and we need to protect it and grow it effectively and efficiently.

Who should do a succession plan?

- Anyone who owns their own business, is thinking of owning their own business or thinking about exiting their own business.

What are the objectives?

- To protect the value of your equity in a business.

When is the best time to do a business succession plan?

- Yesterday

Business Succession Planning

An effective business succession plan should?

- Provide the highest probability of realising your businesses value.
- Manage the tax consequences of owning and selling a business.
- Allow for the sale of your business without complication or unnecessary delay.
- Release you from business loans between the business and yourself.
- Provide suitable asset protection.
- Allow for the value of the business to grow.
- Manage and mitigate risks and plan for contingencies.
- Provide scope for your proportion of equity to increase or decrease efficiently and tax effectively.
- Provide flexibility and tax efficiency in dealing with the deployment of proceeds once received.

Business Succession Planning

- One important component of business succession planning is tax minimisation.

- The government recognises that for many small and medium sized enterprise proprietors, that your business is your retirement plan.

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Small Business CGT Concessions

There are 4 basic concessions:

1. **The small business 15-year exemption**
   - Total exemption from CGT
   - Need to have held asset for 15 years
   - Relevant individual is over 55 years of age
   - Disposal of asset is in connection with retirement
   - Was an active business asset for at least 7½ years while owned

2. **The small business 50% active asset reduction**
   - Provides a 50% reduction of a assessable capital gains
   - Can be used in addition to the 50% reduction for assets held for > 12mths.

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Small Business CGT Concessions

3. **The small business retirement exemption**
   - Provides an exemption from capital gains tax up to a lifetime limit of $500,000.
   - If individual under 55, amount must be paid into a superannuation (or similar) fund.

4. **The small business rollover**
   - Allows deferral of all or part of capital gains tax on a business asset for a minimum of two years where the asset is replaced by a similar asset for a similar purpose.

NOTE: Super laws also allow for a lifetime limit of $1,155,000 of small business capital to be contributed outside of NCC cap for points 1 & 3

Small Business CGT Concessions

Basic Conditions:

a. Maximum Net Asset Test - < $6 million in Net Assets; or

b. Small Business Test - < $2 million aggregated annual turnover

AND....

a. Active Asset Test; and/or

b. Where the CGT asset is a share in a company or interest in a trust, the 20% significant individual test.

Note: Other specific tests apply to each individual concession

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Re-Capping Topics

- Government co-contribution
- Transition to retirement
- Residential property borrowing strategy
- Business real property
- Commercial property borrowing strategy
- Business succession planning

Any Questions?

Could you please complete feedback orms?

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Please do not hesitate to contact us to arrange a time to meet with one of our advisers for a free no obligation meeting to discuss your needs and circumstances and find out how we can help you.

Contact details

Website www.fortrend.com.au,

Email info@fortrend.com.au,

Phone During business hours (03) 9650 8400,

Fax (03) 9650 8740,

Toll Free: 1300 362 684,

Postal address Level 42, 55 Collins Street Melbourne, Victoria 3000 Australia.

ABN: 95 055 702 693

AFSL: 247261

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