5 Secrets to Slash Your Tax Bill and Create Wealth

Introduction

To achieve a life of prosperity you need to follow certain steps. Do you desire to achieve:

- ✓ A good quality of life
- ✓ The best education for your children
- ✓ Quality healthcare when needed
- ✓ And *a sense of freedom* (to travel, to grow new business, to help others less well-off, to help family)

Rather than be cash poor in retirement, take a moment now to ask yourself:
What kind of lifestyle do I want? What do I want for my children… perhaps to leave a legacy? Do I want to look at price tags and cost-cut all my life… or do I want to not have to worry?

Business owners – would you like to know the simplest way to structure your business and financial affairs, so that all assets are protected and yet business growth is not compromised?

Employees – would you like to understand how an effective Superannuation structure can help save on tax, and grow and protect your investments?

Then read on…

1. Asset Protection: Plan ahead for the best tax savings

"It's not how much money you make that counts, it's how much you get to keep that counts." - Tony Lee, Accountant

What is Asset Protection?

It is a sound financial plan designed to safeguard assets from losses – both from potential claims and other liabilities. It includes structuring financial affairs so that creditors cannot easily lay claim to your assets, nor would they see much point in suing you. However, no one can say that a certain protective structure is 100% impenetrable, nor guarantee complete protection.

Asset protection planning is based on Australian laws; it doesn't give owners the right to hide assets or try to defraud creditors. We believe that you can satisfy your objectives at the same time as being truthful about your financial situation and ownership structure details.

The results of asset protection planning depend on your unique circumstances, as well as the quality of these planning strategies.

Who Would Benefit?

Business owners can benefit the most through correct structuring.

Not all business types need sophisticated asset protection planning – but never dismiss it because your business is small or new. If you have any assets, such as shares, managed funds, any house or land in your name, artworks, and the business itself, these would all be at risk if things go wrong.

While you may believe a Sole Trader structure saves on fees like ASIC registration and Workcover, it leaves you very open to litigation and potential loss. It also prevents income splitting between spouses, so bear this in mind.

Anyone (employed or self-employed) who invests or plans to invest in property can also benefit from advice on asset protection.

Another way of Thinking about Financial Planning

Financial offense is what we focus on mostly in our working lives. This is basically: earning an income, investing that income, and growing our wealth.

The normal route is to go to a Financial Planner who will help us create a plan to invest for long-term goals… or use a Broker and pick share investments that meet our goals… or invest in a property for income, growth, and tax savings.

This is all *financial offense*, and it takes a lot of energy and time. In contrast, most Australians don't devote enough attention to ***financial defense*** – protecting what we have built.

In a sports game, good defence is just as necessary as active offense – and poor defence will see you lose the game. In real life, if we don't protect our assets and diversify our assets, then we stand to lose all that we have gained, and it doesn't matter if we had the best offensive/growth plan in the world.

2. Protecting your ownership interest (for the long term)

It's human nature to only think about ownership and asset protection in the face of adversity – when the call about a lawsuit comes, or your main managed fund topples over, or half of all your real estate is claimed by your ex-partner… by then it's all a bit too late.

Early asset protection planning safeguards your wealth against loss (yes, you probably have wealth even if you aren't a Murdoch!). It also allows your wealth to grow without interruption throughout your working life.

Say you're a self-employed person who is 44 and would like to be retired by 60. You've spent about 24 years building up funds for retirement. But one day, disaster strikes and you lose all your savings and assets through a bankruptcy. Picture this: you're now facing another 21+ years of working just to get back to where you were! If you had firstly protected your assets through setting up the correct

structure, then you would have enjoyed 40 years of compounding interest (20 to 60 years), and been able to retire around 15 years sooner.

A defensive plan will make the most difference to your financial standing in your mature years. Financial defence (such as asset protection) helps maximize the chances that your primary goals are met.

The risk of losing your wealth is normally highest when you are busy building it (not on retirement as is often thought), so it pays to plan and protect early.

Additionally, the earlier you take steps to protect and diversify your assets, the more time those assets have to compound. Later we talk about compound interest as our little helper.

The Three Main Threats to Your Assets

Every year there are news stories about managed funds/mortgage finance collapsing, taking all investors' money. Often these people are near retirement and don't have the luxury of time to rebound. No-one seems to question why they relied on the one asset to do all the work.

So the first threat to your assets is ***investment loss***. The vehicles you pick could be Australian shares, property, or another venture. If everything is in one basket, then that creates more risk. Think back to HIH, One Tel, ABC Learning, Storm Financial, and the huge losses investors copped.

The main way to reduce this threat is by ***diversifying***. If your vehicle is the sharemarket, diversify by having a variety of stocks in varied sectors. If it's managed funds, you can choose not only funds with differing equities and methods, but also differing sectors, such as real estate investment trusts or listed property securities on the global market. In direct property, you can choose to invest in different States or different investment types (perhaps with a partner or co-op) rather than just one yourself.

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The second threat to your assets is ***tax liability*** – which tends to grow as your investment activities increase. A strategic tax planner can help you achieve little-known cost savings and tax deductions.

"If you save a dollar, it's equivalent to earning $1.33 before tax – and it's a lot easier".

The third threat to your assets is ***legal liability***. In some businesses or professional practices, claimants can target your assets in a legal suit. Or business partnerships can go awry and individual assets are put at risk. Other cases arise when investment property is owned. When you are sued, everything you've worked hard to achieve is at risk, even if right is on your side. Simple things like unknowingly advertising with another's trademark can cost you thousands in litigation.

What you already have is far more important than what you may or may not have next year, so protect it as early as you can.

Asset protection is not only a way to protect and maintain what you have, but is also a structure that allows assets to grow in value… without too much effort from you. It's far easier to protect (and boost) dollars that you have already earned, than it is to earn more to replace what you've lost.

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3. Leverage through Lending

Did you know that *anyone* who can save $75 per week (and invest at 8% return) constantly over 40 years will become a millionaire? You've likely heard of the miracle of compound interest… our "little helper" that works best over a long period of time. But most people put saving off, making it hard to reap the benefits.

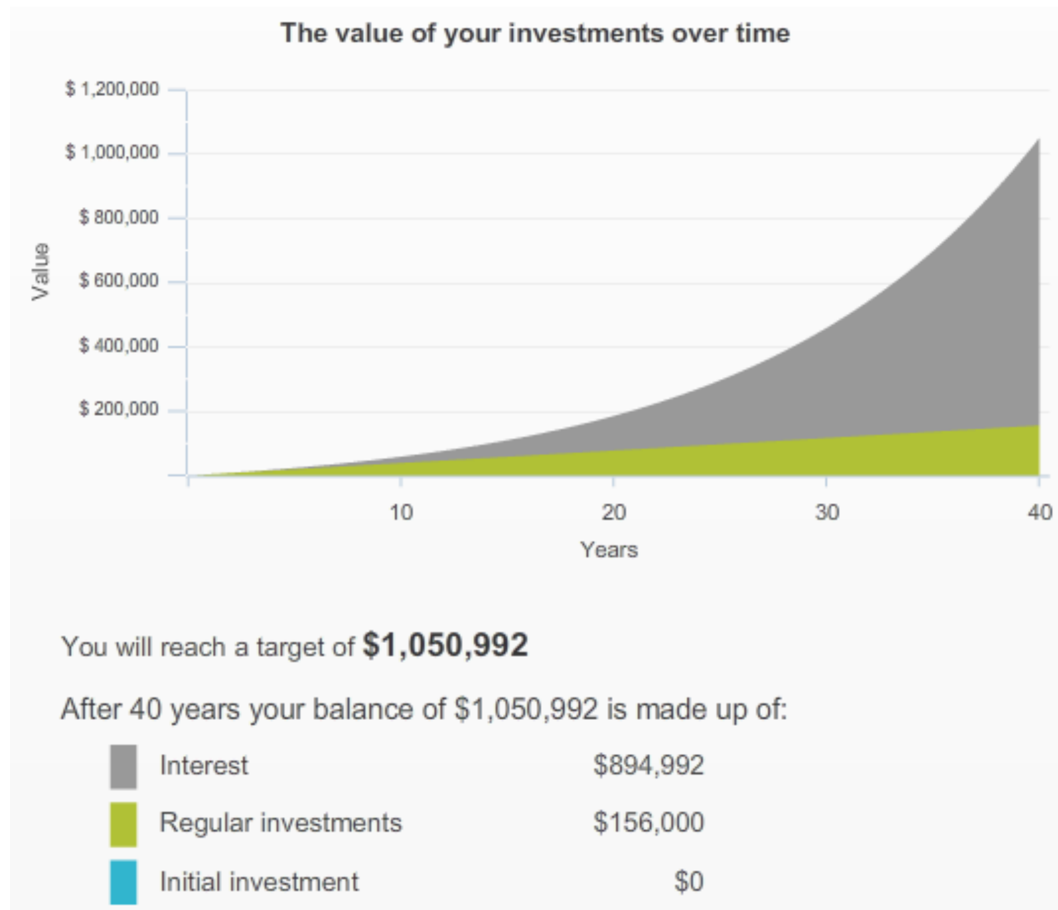

Figure 1 - MoneySmart.gov.au Compound Calculator

What if you don't have 40+ years to save, invest, and earn compound interest? To grow wealth a little faster, using leverage through lending is a good strategy. So let's look at leverage with property or with shares/funds.

Using Leverage with Property

Over the past 100 years, property has been a relatively stable investment, gaining a solid 7.2% on average per year. Property, being harder to sell, is more likely to be

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held through hard times. So, residential property can be a great asset to any portfolio.

Think of borrowing as a lever: with a bigger lever you can lift a heavier weight. So with say an 80% loan to value ratio, you can leverage your original equity and earn capital growth/income on the larger part that you borrow – not only on the part you own.

Using Leverage with Shares

With shares you can borrow, but the loan-to-value ratio is lower than with property, say between 50 – 60% or less.

The downside… Shares are easier to panic sell. Margin lending at too high a loan ratio caused many Aussies to come to grief in the recent market crash. (Keeping the loan to value ratio reasonable is more important with shares, due to margin calls in a falling market). A long term plan and patience will help considerably.

The upside…. If you have a large basket of blue chip shares, you'll probably receive ***franked dividends*** (the tax is already paid at 30%). And this form of income can help pay off any loan on the investment portfolio. Loan interest can also be paid in advance and claimed as a tax deduction at the time.
Earning franked dividends also helps to ***reduce income tax*** if you're not earning wages.

Using Leverage with Superannuation – the whole shebang

The good news is since the Superannuation Industry Act has changed (in 2007), and anyone can now borrow inside a Self-Managed Super Fund in order to purchase direct property or shares.

This is not only exciting from the perspective of growing wealth quicker, but also from a tax-saving and diversification perspective… since SMSFs have special tax concessions. But more on that in a minute!

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4. Decide How Much Tax You Want to Pay in Advance

Kerry Packer famously said, *"Pay your tax, but don't tip them. They're not doing that good a job."*

You might wonder sometimes how 'high net worth' families minimise their taxes. It's simple…. the wealthy pay for good advice - and they take it!

Using trusts and other structures allows much more flexibility to: distribute income at will, keep assets safe for the future, and reduce tax. We call this effective Tax Planning, and now you can access it too.

Diverting Income to Spouses and Kids

One of the major issues of tax planning revolves around how passive income can be split among spouses. Passive income includes: rent from tenants, share dividends, bank interest, or business income.

Correct asset structuring will let any passive income be split between partners with uneven income, such as when Mum stays home and Dad is the major earner.

Australian laws are geared to prevent parents from splitting income with their children. In a recent change by the Tax Office, even trust income distributions are affected. After the first $416 of income, which is tax-free, the ATO penalises non-workers under 18 with a 66% tax rate on ***unearned income*** up to $1308, and 45% on any extra (if they have a paper route that is earned income).

So if you do have assets/investments, the structures that we generally recommend, depending on your personal circumstances, are:

- A Self-Managed Super Fund with up to 4 members (connected properly to a Bare Trust), OR

- A Company structure nominating Directors, with a connected Trust (to add a level of protection).

In business, correct tax planning will make all the difference to the year's bottom line. Company tax rates are often higher than what individual tax rates are, however, wages can be distributed or dividends can be paid in order to reduce the tax on any profits made.

5. Prepare for a Royal Retirement

You have worked hard all your life to put earnings into Super, so why expect to retire and scrimp and save on a limited income?

The terrible truth for many people is their super has gone backwards in the past three years…. and it's not on track to provide an income for life. The solution for this tricky problem is growing in popularity, and that is fully utilising a Self-Managed Super Fund.

Along with your partner or other adult family members, you can opt to merge your Superannuation accounts and control it yourself (with professional help).

"Family SMSFs are the ideal long-term loan vehicle, secured against residential real estate and protecting the future of all family members."
– Russell Medcraft, 'Super Rich'.

A Self-Managed Super Fund and Bare Trust allows you (the trustee) to borrow to buy a Property every so often, giving you the power of leverage.

The many benefits of using an SMSF to buy property

- Use direct investment property as a risk reducer in your super portfolio – diversifying into a completely different market.
- Gearing - borrowing for property purchase inside the SMSF - allows for wealth creation in a low-tax environment.
- Assets held inside the SMSF (with correct structure) will normally be protected against external debt recovery (actual borrowing excluded).

Tax benefits:

- Internal super transactions, such as receiving rental income, are subject to a low tax rate of 15% (rather than 30-45%)
- Once retired, SMSF income, even from property, becomes ***tax free***
- In the accumulation phase, income is taxed at 15% and capital gains at 10%. When the super fund is in pension phase, NO TAX is payable.
- Costs of purchasing/managing property help to reduce your overall tax bill. In an older style discretionary trust this was not always true; losses were often locked in the trust.

Compliance

Compliance of the SMSF is very important. Ensuring you have the right SMSF setup and administration will mean that your fund complies with strict legislation.

One of the main principles to comply with is that of purpose: "providing a benefit for the trustees or their beneficiaries on retirement from the workforce or as a result of the death of the trustee". Schemes offering illegal early access in a "sham SMSF" will generally put the trustee in hot water with the Australian Tax Office.

Of course, managing a large SMSF costs in administrative fees, like any super fund. But if you add up what you and your spouse are already being charged in fees, you might find that there's not a lot of cost difference to using an Accountant with streamlined SMSF administration.

And with a family SMSF, you will be in the power seat, on the road to a royal retirement. Your diversified asset classes will mean that you win when either real estate or shares does well but you don't suffer so much if one class drops, and you are not at the mercy of interest rates on capital guaranteed deposits like many retirees.

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Rather than selling a large share portfolio and paying Capital Gains Tax on half, you can transfer the shares to your Self-Managed Super Fund in-specie and just elect to take a pension from the income.

You and your lovely spouse can choose to get a tax-effective income earlier than 60 years old.

Using an SMSF you can seriously reduce the Capital Gains Tax investors usually incur when selling investment property, and use that extra money to pay off whichever mortgage you still have. No mortgages? Take a holiday; you deserve it.

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About Tony Lee, Accountant & Tax Specialist

Over the past 11 years, I have run a family-owned accountancy practice in Brisbane – Lee & Lee Accountants, as well as Property Tax Specialists. We have helped clients to establish, finance and grow their business; advised on selling their business and managing profits; and helped in planning their estates to benefit the entire family.

An important focus for us is helping business owners and investors safeguard the assets they have worked hard for. **Asset protection** is a realm understood and implemented by few people, and yet it helps business owners structure their affairs so that their homes, investments and business assets are as *safe as possible*.

Our advice is only as good as our experience and knowledge. In the 1990s I owned several retail businesses and experienced hard times. I sold all the businesses, losing some capital, and threw my hands up… had I learnt nothing from being an accountant? Then I realised that to get a better result, you've got to have better information. So I went to many high-end seminars and workshops to learn to be a better investor.

Now with residential properties and in-depth knowledge of asset protection and tax planning, I'm ready to pass on my knowledge to other savvy Australians.

What I've found out about Australians in my 18 years as an Accountant:

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1) We always pay too much tax (GST, CGT, stamp duties, and income tax).
2) We have to spend most—if not all—of our money to fund our family's lifestyle.
3) Most of us are not on track for a comfortable retirement.
4) As Business owners, we're always re-capitalising the business (and compromising our own nest egg).

Just Working Hard… or Working Hard and Smart?

Working hard, learning and investing well has allowed my family wealth to prosper (thanks to the great motivator of my wife who would nag me if I didn't bring home the bacon!), and I wish the same for other savvy Australians.

There are plenty of other Accountants who work hard, yet they do not invest and never grow their wealth with leverage. So how could they want it for you?

At Lee & Lee we are different. We are interested in your goals and so we listen carefully to help you achieve those goals. Having seen the hardships of my poor relatives compared to the freedoms of my rich relatives, I have a passion to help average Australians achieve prosperity.

Do you want to pay less tax, protect your assets, and learn my personal Wealth Masterplan? Then you'll get a lot of value out of '***5 Secrets to Slash Your Tax Bill and Create Wealth'*** … so read on.

Conclusion

With the right advice from your Business, Property & Tax Advisors, you can get your tax bill down to the minimum, while protecting what you already have.

It's important to start with the end in mind. What do you want to achieve? To set up a customised plan for your wealthy future, we need to know your goals, what kind of investments you have, what kind of business, and any future assets you're thinking of acquiring.

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Planning with a good advisor often makes the difference between an average result and an outstanding one. Together we can draw up a complete Wealth MasterPlan (Asset Protection and Tax Savings) that gives a return on investment year after year.

Remember, it's not just this financial year that matters – slashing your tax bill and leveraging your wealth can benefit your family long term. Why not redirect your tax savings and extra income to:

* Private School fees
* Health fund gaps (dental, chiro, physio, psychology, optical, etc.)
* Mortgage repayments (pay the bank less interest!)

If you decide to become a client of Lee & Lee Accountants (Brisbane, Qld, Australia), then you will benefit from our tax savings and asset protection programs, our educational articles, email support, and personal advice that's all included. If you'd like to know more, please call for a consultation on 07 3103 8551.

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