

Cliftons Accountants

THE Business Specialists - Accountants & Business Advisors

Summer 2007

BUSINESS CAPITAL GAINS TAX - *Pitfalls & Possibilities*

The sale of a small business can potentially provide owners with once-in-a-lifetime opportunities to access available capital gains tax (**CGT**) concessions. Through these concessions it is possible to completely eliminate tax on a gain of \$2million.

It is imperative to seek professional Financial Planner and Accounting/Tax advice in the planning stage of the sale, rather than waiting until the sale has happened, particularly as the tax office has advised its intention to increase the number of audits on business sales to ensure there is no incorrect claims on the available concessions. We may be able to suggest changes to the sales contract for allocation of money that will not only reduce tax payable but also give benefits to the buyer, thereby helping secure the best sales price.

Advance planning may enable further savings by taking advantage of changes to superannuation for contributions resulting from the sale of small business and ensure you get the maximum benefit from your years of hard work.

There are four specific small business **CGT** concessions, in addition to the general 50% discount that applies to individuals & trusts for assets held for more than 12 months;

1. A 50% gain reduction on the sale of 'active' assets used in the business (includes business premises, but only if owned by the same entity/individuals that operated the business);
2. A 15-year business ownership exemption, when the owner is over 55 and the sale is in connection with retirement;
3. A Lifetime \$500,000 retirement exemption, when owner is over 55 or if under 55 and the gain is paid into superannuation;
4. Rollover relief if a replacement asset is purchased within 1 year before the gain or within 2 years after.

For accessing any of the concessions there is a total '**net asset test**' that must not be exceeded, currently set at \$5million of net worth (**assets less liabilities**). This includes all business assets, investment properties, shares, cash, managed funds and the like. Excluded from the threshold is the main residence, superannuation and private use assets such as cars and boats.

A STAR IS BORN



The Cliftons clan saw an addition with the birth of Corinne Joy to Kurt & Emma on 15 September 2006. Coming into the world at 9lb 10oz and 52cm, Corinne is the 4th child for Kurt & Emma and grandchild number 11 for Ken & Olga. Kurt, though smitten with the newborn, was a little disappointed not to have broken the 10lb mark, with Emma more than happy not to crack that mark. Our best wishes to all.

SIX CLEVER IDEAS FOR A SMALL BUSINESS SALE

- 1 Aim to maximise the sale price by maximising the tax advantages for the purchaser
- 2 Try to reduce your capital gain to Nil by combining various concessions and the general discount
- 3 If you are likely to exceed the \$5million net asset test for eligibility there may be scope to contribute cash savings to super, which can be made by the business or business owner
- 4 Consider waiting until July 2007 to sell, as the net asset test threshold goes up from \$5million to \$6million at that date
- 5 Obtain specialist advice about whether to contribute a sizable portion of the sale proceeds into super
- 6 Think well ahead

AGNEW WEALTH CREATIONS

Cliftons, in association with our financial planning and investment strategy providers Agnew Wealth Creations, held a very informative seminar and information session regarding agri-business investment opportunities, with particular reference to the Rewards Group Berry Project 2007.

The sessions were well attended, and presenter Ken Brewer gave a very insightful overview of the project and the driving force behind it, including the quality of the produce, scale of the operation, marketing expertise and exclusive licencing.

Agnew's have a number of presentations in the coming months, starting with a presentation of the Premium China Fund in early December. Following in the New Year will be presentations on other funds and investments, including agri-business, commercial property funds and off-shore index linked investments, with geared funding available. These are amazing wealth growth opportunities, that you should not miss out on. **Call to be on the list for an invitation.**

For more information on the upcoming presentations or with other investment queries, please contact Cliftons on **4421 5866** or Agnew's on **4423 7333**.



**URGENT
CALL TODAY!**

STRUCTURES - and we're not talking houses

When Cliftons start talking about structures we are not referring to your house or your business premises. But just like your house, we know that if you do not have the right structure for your purpose then it could be costing you money and be uncomfortable.

Tax structures are designed to reduce your tax burden and eliminate risk to assets in the case of litigation or bankruptcy. Tax structures can be used to provide income for your family members while reducing your total family tax liability. Whilst paying tax is an integral part of Australia's social structure, legally reducing the amount of tax you pay is a key element of successful wealth creation. And a fundamental step in that creation is the structure through which you operate your business.

The right tax structure is not only important whilst your business is operating, but is also a key element when it comes to the sale of your business. Individuals, Partnerships and Trusts have access to more of the discounts and concessions when it comes to capital gains tax on disposal (*see article in this newsletter "BUSINESS CAPITAL GAINS TAX - Pitfalls & Possibilities"*) whilst a business conducted through a Company does not.

The main business and tax structures are;

- 1. SOLE TRADER** - Simple, easy and cheap, with little or no cost to establish, but if anything goes wrong you, the individual (you) bear the loss or liability.
- 2. PARTNERSHIP** - Two or more (people or entities) working together with a view to a profit, and again costing little to establish. An agreement should be drawn up before commencing, as whilst all benefits are split, one party can end up liable for the debts of the other, with personal assets at risk.
- 3. COMPANY** - A separate legal entity from the shareholders, losses are trapped for use against future profits whilst profits are taxed at only 30% but you cannot personally use the profits unless paid out to you as wages or dividends and then taxed at your individual marginal tax rate; there are strict rules against taking money out as a loan or drawing.
- 4. TRUST** - Can be a discretionary trust where entitlement to income and capital is up to the discretion of the trustees, or a unit trust where income and capital is allocated according to set percentages or unit holdings. Trusts have the benefit of protection to your personal assets not in the fund and should you as an individual be sued or go bankrupt they cannot force the trust to pay funds held by it to your creditors. We can help set up a way that can greatly protect your assets. Trusts can also save tax by distributing income splitting to other family members and even church gifts can be given out of pre-taxed income.

One structure may be right for the bloke down the street but your circumstances are probably unique, and what works for him may not be best for you. Likewise, the structure that is appropriate for you right now, just like the house you live in at the moment, may not be right for you forever, so needs to be reviewed.

SOLE TRADER



PARTNERSHIP

COMPANY

TRUST

GOOD DEBT V BAD DEBT

Whilst debt can sometimes be viewed in a negative light, it can be an effective way to increase your net wealth if used for the right purposes and in the right way.

Borrowing money to purchase growth assets - or those which will continue to produce an income - can be considered **"GOOD DEBT"** because it has the ability to increase your net wealth over time and help you towards a financially secure future.

"FALSE WEALTH" consists of depreciating lifestyle assets such as cars, boats, clothes and consumer items and even your private house, for while the house land may grow in value over time, the rest will decline in value and any interest and expenses incurred cannot be claimed as a tax deduction and are not producing income and as such are a wealth drain.

One best kept secret to becoming wealthy is to save at least 10% of your net after tax income and invest that 10% (or more) into real wealth generating assets that work for you, and limit your spending on things that won't.

But you don't have to go without life's luxuries all together. It is short-term control and investing your money in assets that produce an income that will earn you extra money to make many more enjoyable purchases over your lifetime.



IT'S A BOWRAL BOY!

Congratulations to Natalie & Simon from our Bowral office on the birth of Tom on 5 August. Tom is adored by his two sisters (Lily 6 and Sophie 4) and at 7lb 12oz and 47.5cm he will soon give them a run for their money.

Cliftons have partnered with Matrix Planning Solutions in Bowral to offer high quality financial planning and advice services for your investments.



Peter Hammon and his professional team use their Prospera system to individually tailor solutions for clients aspiring to pay off their homes and build wealth. It includes a complete software management system to help clients manage cash flow and reduce debt to achieve their goals. Prospera addresses the complete strategy from product to implementation to monitoring. They monitor cash flows monthly to help you stay on target for your goals. Matrix believe in the benefits of sound advice, and based on your stage of life and financial success, are able to develop a plan to take you to the next stage of your financial goals. Matrix advisers must meet rigorous educational and professional requirements to maintain their Authorised Representative status with Matrix.

Enjoy the benefit of sound advice and contact Peter at Matrix today to make sure your investments are well planned and prosperous. Matrix are located at Unit 4, 44-48 Bowral Street, Bowral and are available by phone on 4861 7888.

FAREWELL MIOK! HELLOOOO TANYA!!

After nearly 6 years of loyal service Miok has, for family reasons, moved on to take up a position with the Defence Force in Canberra. Fear not, she will not be brandishing a gun. Miok started as a trainee with Cliftons soon after the introduction of GST in 2000, and developed her skills and qualifications since then to leave us as a very competent accountant who will be missed.

Taking up where Miok left off will be Tanya Hunt, a Chartered Accountant with over a decade of public practice experience. Tanya specialises in Company's, Trusts and Superannuation Funds and brings a varied set of experiences to our team and we look forward to her contributing to providing outstanding service to our clients and having a long association with the Cliftons team.

If you haven't yet seen our website check out all the great information and book reviews at www.cpaaccountants.com.au

If you want some fun during lunch, go to www.stickcricket.com, and give it some stick!

BUDGET 2006 SUPERANNUATION CHANGES

The May 2006 Budget saw considerable changes to superannuation, most of which will prove to be highly beneficial. Most of these changes come into affect on the 1 July, 2007. Outlined below are a few of the major changes.

From 1 July, 2006 the tax deductible contribution limit will change from the current aged based limits to a flat limit of \$50,000 p.a. per person. This is a definite improvement on the current system of the 1st \$5,000 plus 75% of the excess up to your aged based limit being deductible. The \$50,000 limit gives a significant advantage to younger taxpayers looking to contribute deductible money into superannuation. However for taxpayers over 50 years of age it is effectively a halving of the tax deductible contributions limit.

Any amounts contributed up to the \$50,000 limit will be taxed at 15% within the fund, but if you contribute over \$50,000 in deductible contributions the balance over \$50,000 is taxed at 46.5%.

As a transitional arrangement any taxpayer over 50 years of age will be subject to a contribution limit of \$100,000 p.a. until the end of the 2012 income year, after which the limit will be dropped to \$50,000. Anyone who turns 50 Between 2007 and 2012 will have access to this higher amount.

Undeducted contributions to superannuation will also be limited from 1 July, 2006 to a limit of \$150,000 per year (*with a 3 year averaging system*). To combat some of the negative impact of this change, the ATO have introduced a transitional limit of \$1 million that can be contributed between 10 May, 2006 & 30 June, 2007.

After 30 June, 2007 if you contribute over the \$150,000 undeducted contribution limit the excess will be taxed at 46.5%.

If you are nearing retirement age you should get advice from your Financial Advisor in the next couple of months to see if you should be taking advantage of this transitional arrangement. If you do not currently have a Financial Advisor or are unhappy with your current Advisor we recommend that you give Agnew Wealth Creations in Nowra a call on 4423 7333 or Matrix Planning Solutions in Bowral a call on 4861 7888.

Other changes include:

- **No work test for Undeducted Contributions for people under 65.**
- **Work test for people aged 65 or more and under 75.**
- **No contributions of Undeducted Contributions for over 75's.**
- **Government Co-contribution (max \$1,500, reduces for income over \$28,000) extended to the self employed.**
- **Withdrawals from Superannuation paid tax-free for over 60 year olds.**
- **Reasonable Benefits Limits abolished.**
- **No more compulsory cashing of superannuation for over 65 year olds. (starts 10 May, 2006)**

As you can see there are many changes that could affect the decisions you make regarding superannuation. For a full discussion on how the changes will affect you, come in to our office and discuss your individual circumstances.

This newsletter is for general information only. The articles should not be relied upon without professional advice. Contact our office for further information. Liability limited by a scheme approved under Professional Standards Legislation.



ACCOUNTANTS

Clifton Professional Accountants

Suite 2

6 Bunberra Street

Bomaderry NSW 2541

P: 02 4421 5866

F: 02 4423 7819

E: admin.bomaderry@cpaaccountants.com.au



ACCOUNTANTS

Clifton, Doherty & Harwood Pty Ltd

Suite 8, 1st Floor

409 Bong Bong Street

Bowral NSW 2576

P: 02 4861 2811

F: 02 4862 1009

E: admin.bowral@cpaaccountants.com.au