nabprivatewealth

Building and protecting your wealth… the tax effective way

Strategies guide – 2014/2015

The lead up to End of Financial Year (EOFY) provides a good opportunity to review your wealth creation plans.

At this time, you may be thinking about strategies to reduce your tax liability, however, before taking action, you should consider the impact on your longer term wealth creation and protection requirements.

At NAB Private Wealth, we believe the end of financial year provides an opportunity to review your wealth goals over the short, medium and long term, and to implement the right strategies now to help you achieve those goals in the future.

With expert advice on investments, managed funds, wealth protection, estate planning and philanthropy, we can help to ensure that:

- your family assets are structured effectively
- you are maximising your retirement savings
- you have considered all available wealth creation strategies
- you are protecting your family's wealth sufficiently

Our collaborative approach

At NAB Private Wealth, our collaborative approach ensures you receive comprehensive advice and solutions tailored specifically to your individual needs.

Firstly, we work with you to understand your financial situation and lifestyle goals. We can then draw upon the expertise and offerings available across the NAB Group including JBWere, JANA, MLC and National Australia Trustees, as well as from our select external partners, to provide tailored advice and solutions.

We can also collaborate with your registered tax agent, solicitor and other professionals to implement those solutions for you.

NAB Private Wealth is not a registered tax agent or registered tax (financial) adviser. If you intend to rely on this general information to satisfy liabilities, obligations or claim entitlements that arise, or could arise, under taxation law, you should seek professional advice from a registered tax agent or registered tax (financial) adviser.

Structuring your family's assets

Holding your investments solely in your personal name may not be the most tax effective way to structure your family's assets

Have family assets held in spouse's name or family trust

Where you hold family investments in your own name, you will be paying tax on investment earnings and realised capital gains at your marginal tax rate of up to 49%[1]. If your spouse is on a lower marginal tax rate than you, you may be able to reduce the tax payable on the investment income if your family assets are held in either your spouse's name or joint names.

Alternatively, you may want to consider family discretionary trusts which would require advice from your registered tax agent and solicitor. This can give you the flexibility to decide how much investment income and realised capital gains are distributed to family members each year.

Investing through a discretionary family trust may also provide greater protection for your assets in certain circumstances.

Manage employee shareholdings effectively

If you are a member of an employee share scheme, consider transferring ownership of the shares to your spouse if they have a lower marginal tax rate or a family trust at the end of the cessation (or vesting) period (if eligible). This will assist you and your spouse to build a joint investment portfolio and could also help reduce the tax payable on future earnings.

As tax may apply to the transfer and/or disposal of your shares, you should consult with a registered tax agent to determine the tax implications for you of this strategy.

How to protect your shareholdings

If your employee (or other) share investments represent a significant portion of your total wealth, there are certain strategies that you can use to minimise your exposure to market volatility.

One low-cost method to protect your shareholdings is to establish an equity collar strategy. This is where you:

- purchase a 'put option' to provide some protection against potential losses from downward price movements, and
- sell a 'call option' to offset that cost, but also limiting potential gains.

An equity collar can enable you to reduce the impact of adverse price movements, while benefiting from price increases up to certain levels. Your NAB Private Wealth Advisor can also liaise with your Registered Tax Agent as the taxation of options can be complex.

[1] Includes Temporary Budget Repair levy and Medicare levy.

Maximising your retirement savings

Superannuation remains one of the most tax effective ways to build wealth and save for retirement

Reduce tax on investment earnings

One of the key benefits of investing in super is that earnings are taxed at a maximum rate of just 15%, instead of at your marginal tax rate of up to 49%[1], when investing outside super.

If you hold money outside super that you plan to use to fund your lifestyle in retirement, you may want to use it to make a personal after-tax super contribution so you can take advantage of the low tax rate.

Personal after tax and other non-concessional contributions are currently capped at $180,000 pa. However, if you are under age 65 during this financial year and meet certain other conditions, you may be able to contribute up to $540,000 this financial year by using the three-year bring forward opportunity.

Pay less tax on your salary or bonus

If you are an employee, you may want to contribute some of your pre-tax salary (or a bonus) directly into superannuation rather than receive the money as cash.

With this strategy, known as salary sacrifice, you could boost your retirement savings and pay less tax on your salary or bonus. This is because your salary or bonus would normally be taxed at your marginal rate of up to 49%[1] if received as cash. However, if you salary sacrifice the money into superannuation, the contributions are generally taxed at 15% in the fund (and an additional 15% may also apply and be taxed to you personally where your contributions and income exceed $300,000).

Salary sacrifice and other concessionally taxed super contributions are capped at $30,000 in 2014/15, unless you were 49 years of age or older on 30 June last year in which case the cap is $35,000 this financial year.

To use this strategy, you will need to set up a salary sacrifice agreement with your employer and you can only sacrifice future wages/salary/bonus payments into super. That is, you should have an effective salary sacrifice agreement in place with your employer before you have performed the work to earn the income that you are going to salary sacrifice.

Reduce tax on your business income

If you earn less than 10% of your income[2] from eligible employment because you are either self employed or receive the majority of your income from 'passive' sources such as investments, you may be eligible to make personal super contributions and claim the contributions as a tax deduction.

While the amount you claim as a deduction will generally be taxed at 15% in your fund (plus an additional 15% may also apply and be taxed to you personally where your contributions and income exceed $300,000), you may be able to use the deduction to lower your taxable income, including realised capital gains from the sale of an asset.

Like salary sacrifice and other concessionally taxed super contributions, personal deductible contributions are capped at $30,000 for 2014/15, unless you were 49 years of age or older on 30 June last year, in which case the cap is $35,000 this financial year.

Grow your super tax effectively without reducing your income

If you have reached your preservation age[3] or over and still working, you may be able to make salary sacrifice or personal deductible contributions and supplement your reduced income by using some of your super to start a transition to retirement pension, which pays a regular and tax-effective income. This strategy could enable you to build your retirement savings without compromising your current living standard.

Reduce tax and top up super when selling your business

When selling an eligible small business or small business assets, there are a range of concessions you may be able to use to reduce or eliminate capital gains tax. Some of these concessions also enable you to utilise an additional cap when making super contributions. This is known as the CGT cap and is currently a lifetime limit of up to $1.355 million (2014/2015).

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[1] Includes Temporary Budget Repair levy and Medicare levy.
[2] Includes assessable income, reportable fringe benefits and reportable employer super contributions.
[3] Preservation age is 55 for those born before 1 July 1960 and will gradually increase to 60 based on your date of birth.

Super tips post 1 July

Review your concessionally taxed contributions

Increase your concessionally taxed super contributions

If you are aged 49 or over on 30 June 2014, your concessional contribution cap for 2014/2015 is $35,000.

If you are under age 49 on 30 June 2014, your concessional contribution cap is $30,000.

You may want to take advantage of the contribution cap that applies in this financial year.

Make larger personal after-tax super contributions

In addition to concessional contributions, you may consider boosting your retirement savings through non-concessional contributions. Non-concessional contributions are made from after-tax savings.

The cap is:

- $180,000 pa or
- $540,000 if you are under age 65 during the income year as you can utilise the three-year bring forward rule.

Non-concessional contributions could be made for either yourself or a spouse.

Review your transition to retirement strategy

If you are aged between 55 and 59 on 30 June 2015 and are using the transition to retirement (TTR) strategy, you may want to make some adjustments next financial year.

This may include:

- reviewing total contributions for the year ahead
- ceasing the current pension, pooling other accumulated superannuation savings and restarting.

You may also be able to to draw more income from your TTR pension to replace any extra money you contribute into super. But you will need to ensure you don't draw more than the maximum TTR income, which is 10% of the account balance on 1 July each year.

Building wealth through gearing

Build your wealth over the longer term with borrowed money

A effective way to build long-term wealth is to borrow money to invest in assets such as shares and property[1]. Known as gearing, this strategy can enable you to make a larger investment than you otherwise could if you relied exclusively on your own capital, while loan interest and certain other expenses are generally tax-deductible[2].

Pre-pay investment loan interest

If you take out a fixed rate investment loan, you may want to pre-pay up to 12 months' interest in the 2014/15 financial year. By doing this you could be eligible to claim a tax deduction in 2014/15 for the prepaid interest upfront.

Tap the power of gearing in your super

If you have a self-managed super fund, you could arrange for the fund to borrow to invest in assets such as property or shares using a limited recourse borrowing arrangement. This strategy is growing in popularity, particularly among people who run a business and want to purchase and hold their business premises in their self-managed super fund. However the arrangement must satisfy the legislative requirements.

[1] Borrowing to invest can increase your losses if your investments fall in value. For this strategy to be successful in the long-term, you need the investments you buy with borrowed money to generate a total return (including income and capital growth) that exceeds the after tax costs of financing the investment.

[2] To be eligible to claim the interest on an investment loan (and certain other expenses) as a tax deduction, the investments you purchase with the borrowed money need to generate assessable income.

Protecting your family's wealth

As you build your family's wealth, it becomes increasingly important to protect your assets and earning capacity

Upfront tax concessions for protecting your family

If you take out life and total and permanent disability (TPD) insurance through your super fund, you can take advantage of a range of upfront tax concessions generally not available when insuring outside super. For example:

- if you make salary sacrifice contributions, you may be able to effectively purchase insurance through a super fund with pre-tax dollars, or
- if you earn less than 10% of your income[1] from eligible employment, you may be eligible to claim your super contributions as a tax deduction, regardless of whether they're used in the fund to purchase investments or insurance.

These tax concessions can make it cheaper to insure through a super fund or enable you to purchase a higher level of cover than you otherwise could outside super. If you're a business owner, insuring within your super fund could also be more cost effective when taking out life or TPD insurance to protect:

- personal assets used to secure business debts, and
- your interests in the business when establishing a Buy/Sell agreement[2].

But before you purchase insurance in super, you need to be aware that contributions made to fund the premiums will count towards the relevant superannuation contribution cap. Also you may need a higher sum insured to account for tax that could be payable on death benefits to your beneficiary/s.

When buying TPD insurance in super, it's also important to consider how the policy defines total and permanent disability and whether this could impact when you would be able to access any insurance benefit paid into your super fund[3].

Protect your income and boost your tax deduction

Income protection insurance provides up to 75% of your income should you become unable to work due to illness or injury. Income protection insurance premiums are generally tax deductible whether funded within or outside super (but at different rates). But if you take income protection in your own name (outside super), you can pre-pay a year's worth of premiums and may be entitled to a tax deduction in the current financial year that would otherwise be tax deductible in the following financial year.

Giving back: an important issue to consider

The end of the financial year provides a good opportunity to consider new philanthropic intentions and strategies or to review existing ones.

A charitable endowment fund (CEF) is a public ancillary fund designed to make it easy for you to manage your philanthropic giving and offers the following benefits:

- Tax deductibility: You are entitled to claim a tax deduction on most donations you make through a charitable trust that is a deductible gift recipient, including the opportunity to spread deductions over a period of up to five years.
- Timing: You can make extra contributions at any time, so you can take advantage of tax year timing.
- Tax benefits: Charitable trusts can enjoy tax exempt status, boosting the annual returns available for distribution to charities.

JBWere Charitable Endowment Fund

With the JBWere Charitable Endowment Fund, you can create a CEF management account, allowing the principal to be invested so it can grow, while the fund's earnings are distributed to your preferred charities.

An account can be set up in three business days and there are no establishment fees.

Talk to an expert

Your NAB Private Wealth Advisor can help you and your registered tax agent to tailor strategies that manage your finances in the most effective manner while seeking to build and protect your wealth for future generations.

Contact your NAB Private Wealth Manager or Advisor today.

Visit **nabprivatewealth.com.au**

[1] Includes assessable income, reportable fringe benefits and reportable employer super contributions.
[2] A Buy Sell agreement is a legal contract that can facilitate the orderly transfer of ownership if you or another principal in your business dies, becomes totally and permanently disabled or suffers a critical illness.
[3] The definitions which result in proceeds being paid from an insurance policy must now be aligned to the SIS conditions of release allowing access to super benefits if the policy is held inside super. From 1 July 2014, an own-occupation definition (where a policyholder is permanently unable to perform the duties of their current occupation as opposed to an any occupation definition) will not be available to new members inside super. Careful consideration should be given to whether a TPD policy should be held inside or outside superannuation.

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