



YOUR GUARDIAN

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Save tax with double deductions

With the removal of surcharge, the introduction of the Term Allocated Pension and the introduction of the new rules allowing the commencement of non commutable pensions upon reaching preservation age, contributing to superannuation and accumulating benefits up to the pension reasonable benefit limit (currently \$1,297,886 for 2005/2006) has never been more attractive.

Making deductible superannuation contributions can potentially reduce tax on income in a particular year from 48.5% to below 15%, with now the only downfall being the 15% tax on contributions.



The company of Mr and Mrs Plant

Mr and Mrs Plant are 52 and 51 respectively and work for their own company, Plant Pty Ltd. Plant Pty Ltd's income (before wages and tax) is around \$230,000 per annum and the directors pay themselves a salary of \$100,000 each per annum (plus \$9,000 each representing the 9% super requirement), leaving the company with taxable income of \$12,000.

Mr and Mrs Plant are the directors and shareholders of the company. The company has retained earnings in the vicinity of \$600,000 (it is common for private companies to have high levels of retained earnings as a result of income being sheltered at the lower corporate tax rate over the years).

While the company may still operate for a few years, Mr and Mrs Plant would like the company to scale down and wind up in the near future as they approach retirement.

For 2005/2006, as it stands, the tax payable for the group would be as follows:

	Mr Plant	Mrs Plant	Company	Plant Super Fund
Taxable Income	\$100,000	\$100,000	\$12,000	\$18,000
Tax Rate	up to 48.5%	up to 48.5%	30%	15%
Tax Payable / (Refundable)	\$32,050	\$32,050	\$3,600	\$2,700
Total Group Income	\$230,000	–	–	–
Total Group Tax Payable	\$70,400	–	–	–
Average Tax Rate	30.6%	–	–	–

However, this group could be structured differently in a very tax effective manner, by making the most of the deduction allowed on superannuation contributions.

Step 1

Rather than paying a salary from the company, Mr and Mrs Plant could consider paying the maximum deductible superannuation contributions (\$100,587 for people over 50), with the balance of taxable income withdrawn from the company as wages. The situation would then be as follows:

	Mr Plant	Mrs Plant	Company	Plant Super Fund
Taxable Income	\$14,413	\$14,413	–	\$201,174
Tax Rate	16.5%	16.5%	30%	15%
Tax Payable / (Refundable)	\$1,478	\$1,478	–	\$30,176
Total Group Income	\$230,000	–	–	–
Total Group Tax Payable	\$33,132	–	–	–
Average Tax Rate	14.4%	–	–	–

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Step 2

This helps to reduce tax, but Mr and Mrs Plant will need money to live off in the short term (and this cannot be accessed from the super fund yet) and the company still has the issue of prior year retained earnings. Therefore, we pay a dividend of \$100,000 each, fully franked, from the company:

	Mr Plant	Mrs Plant	Company	Plant Super Fund
Taxable Income	\$114,413	\$114,413	–	\$201,174
plus Franking Credits	\$42,857	\$42,857	–	–
Total Taxable Income	\$157,270	\$157,270	–	–
Tax Rate	up to 48.5%	up to 48.5%	30%	15%
Tax Payable / (Refundable)	\$59,826	\$59,826	–	\$30,176
less Franking Credits	(\$42,857)	(\$42,857)	–	–
Net Tax Payable / (Refundable)	\$16,969	\$16,969	–	\$30,176
Total Group Income	\$430,000	–	–	–
Total Group Tax Payable	\$64,114	–	–	–
Average Tax Rate	14.9%	–	–	–

Step 3

As Mr and Mrs Plant's assessable income from employment (\$14,413 each from the company) is less than 10% of their total assessable income, they both qualify to claim a deduction for personal superannuation contributions. Both Mr and Mrs Plant could then make a contribution to obtain the maximum deduction:

	Mr Plant	Mrs Plant	Company	Plant Super Fund
Taxable Income	\$114,413	\$114,413	–	\$402,348
plus Franking Credits	\$42,857	\$42,857	–	–
less deductible personal super contribution	(\$100,587)	(\$100,587)	–	–
Total Taxable Income	\$56,683	\$56,683	–	–
Tax Rate	up to 48.5%	up to 48.5%	30%	15%
Tax Payable / (Refundable)	\$13,715	\$13,715	–	\$60,352
less Franking Credits	(\$42,857)	(\$42,857)	–	–
Net Tax Payable / (Refundable)	(\$29,142)	(\$29,142)	–	\$60,352
Total Group Income	\$430,000	–	–	–
Total Group Tax Payable	\$2,068	–	–	–
Average Tax Rate	0.5%	–	–	–

Previously, contributing to superannuation has been soured by excessive surcharge rates of up to 15% on taxable contributions. However, no surcharge and flexible retirement options makes deductible superannuation contributions very attractive.

Through restructuring the income of the group and taking advantage of maximum deductible super contributions, significant benefits have been achieved, such as:

- Reducing the annual overall group tax bill by \$68,332 (Including refund of franking credits)
- Paying out retained earnings of the company to shareholders in a tax effective manner
- Accessing tax previously paid by the company to reduce overall tax payable for the group for the current year (by way of franking credits attached to dividends paid)
- Transferring assets to superannuation, where income is taxed at rate of up to 15% (0% in pension mode), setting up for retirement.

Please consult your advisor/accountant before adopting this structure. There are tests which must be satisfied to claim tax deductions for personal super contributions and may be other issues to take into account, such as capital gains on the disposal of the company's assets.

This strategy also does not take into account possible tax payable upon eventual withdrawal of the benefits from the superannuation fund.



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