Wealth Accumulation

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the next solution

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Agenda

1. Reasons for wealth accumulation
2. Budgeting issues and cashflow
3. Ownership structure
4. Gearing to build wealth
5. Investment Strategy
6. Strategies to accumulate wealth in super

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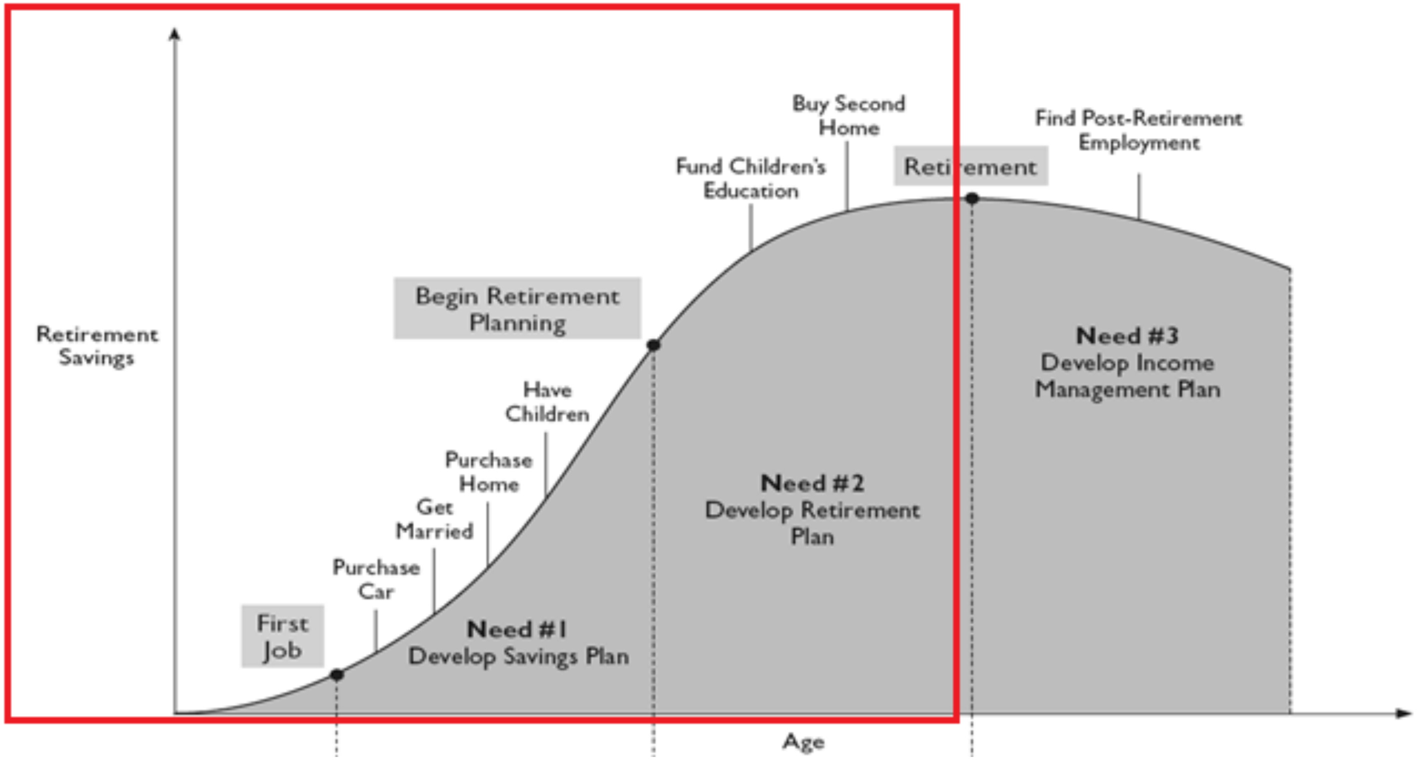
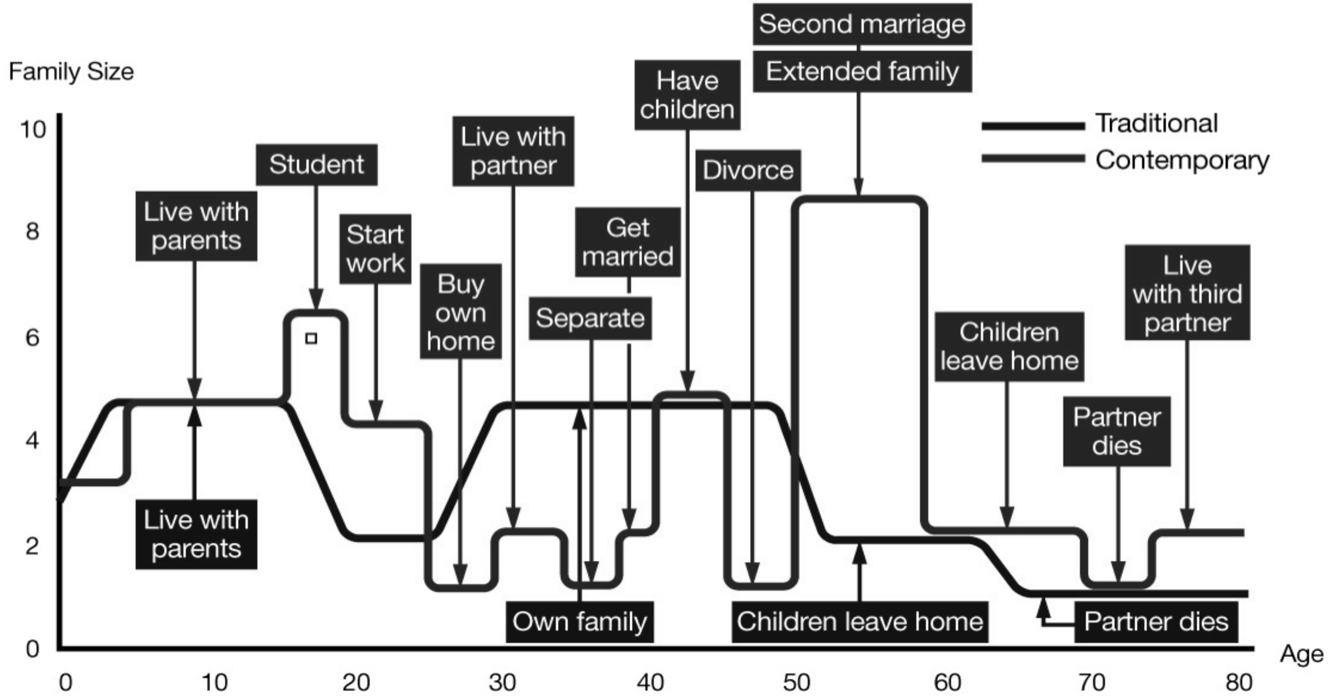
Reasons for wealth accumulation

- Flexibility and control of own destiny
- Education funding
- Freedom
- Legacy/succession for family
- Passive income
- Self-funded retirement
- Philanthropy/charitable giving

Reasons for wealth accumulation



The life Cycle – Behavioural patterns



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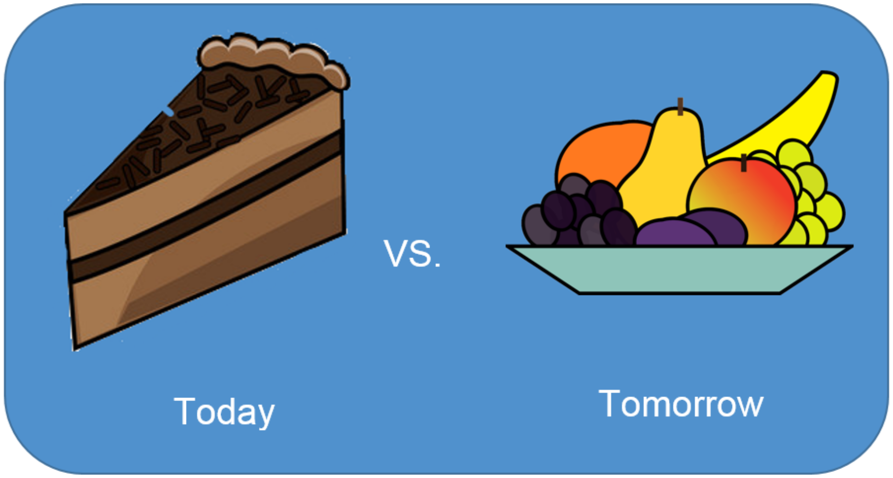
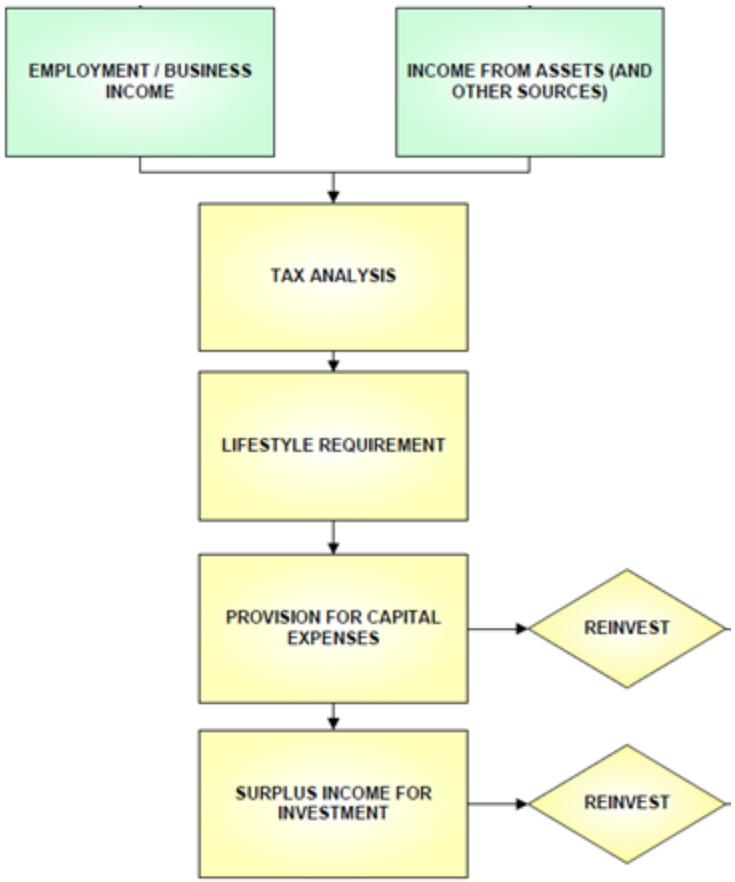
Budgeting issues and cashflow

- Making the most out of what you've got
- Provision for capital expenses
- Make important decisions *today* about your needs *tomorrow*



Budgeting issues and cashflow



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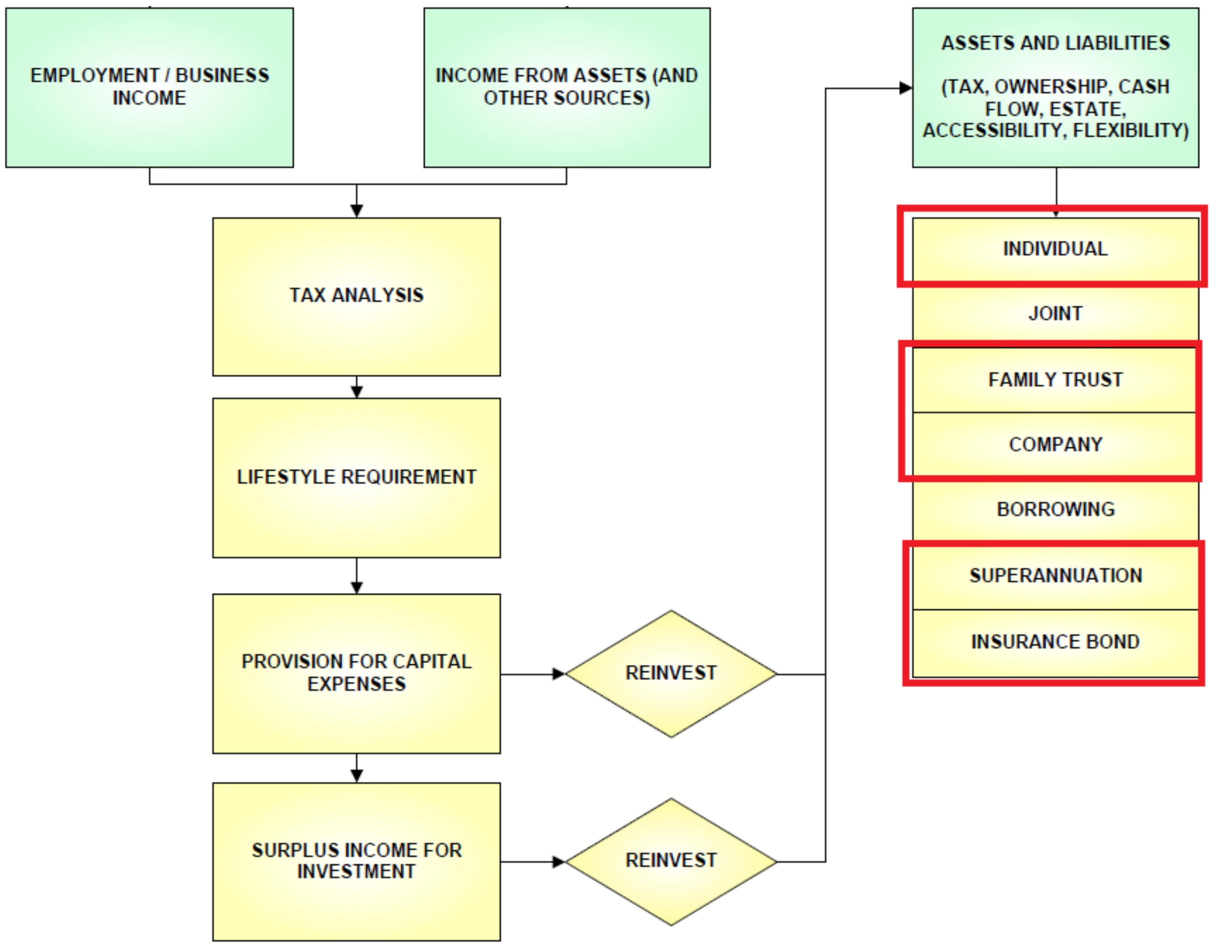
Ownership structure



Ownership structure

Individual	
Tax	▪ Up to 49%
Capital gains	▪ If held > 12 months – 50% discount ▪ Gains assessed at marginal rates
Cash flow	▪ Full and immediate access to cash flow
Accessibility / flexibility	▪ Offers flexibility ▪ No accessibility issues and capital can be accessed at any time
Asset protection / risk	▪ No asset protection
Estate planning issues	▪ Estate assets are covered for under the Will
Cost	▪ Nil to low cost

Ownership structure

Discretionary Trust	
Tax	▪ Taxed internally at 49%, or ▪ Distributions taxed at beneficiary's marginal rates
Capital gains	▪ Capital gains (not losses) can be distributed to beneficiaries
Cash flow	▪ Income distributed to beneficiaries
Accessibility / flexibility	▪ Offers flexibility regarding accessing capital
Asset protection / risk	▪ Generally provides protection against creditors or relationship breakups
Estate planning issues	▪ Assets remain in the trust after death
Cost	▪ Moderate establishment and ongoing administration costs

Ownership structure

Company	
Tax	▪ Taxed at 30%*
Capital gains	▪ No CGT concessions for companies
Cash flow	▪ Dividends paid ▪ Utilising franking credits depends on tax position of company
Accessibility / flexibility	▪ Accessing capital requires dividends to be paid out
Asset protection / risk	▪ Provides limited liability ▪ Company directors held personally liable for potential compensation, fines and legal costs
Estate planning issues	▪ Shareholdings are dealt with under Will
Cost	▪ Higher set up costs and ongoing admin costs than other structures

* Reducing to 25% over 10 years

Ownership structure

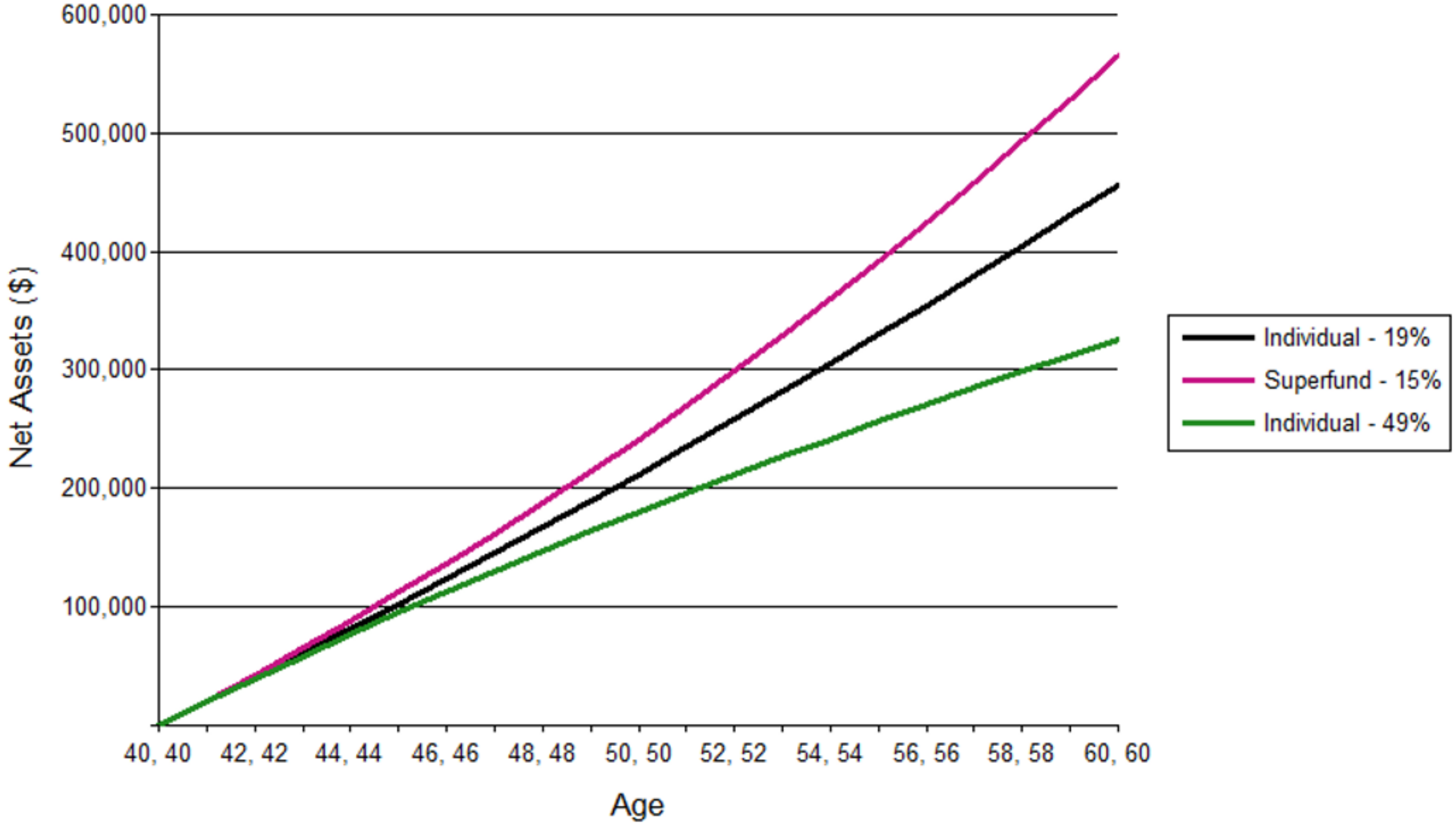
Superannuation Fund	
Tax	▪ 15% - accumulation, 0% pension
Capital gains	▪ 10% - accumulation, 0% pension
Cash flow	▪ Can only be accessed upon meeting a condition of release (e.g. retirement)
Accessibility / flexibility	▪ Funds may be trapped per the above ▪ Legislative risks – rules are continually changing
Asset protection / risk	▪ Provides asset protection
Estate planning issues	▪ Not covered under the Will ▪ Nomination needs to be established ▪ Potential tax implications depending on beneficiary nominated
Cost	▪ Moderate establishment and ongoing costs

Ownership structure

Insurance bond	
Tax	▪ Taxed internally at 30%, tax free in hands of investor after 10 years
Capital gains	▪ Taxed internally at 30% ▪ CGT discount not applicable
Cash flow	▪ No income paid
Accessibility / flexibility	▪ Can access but will be subject to tax if withdrawn prior to 10 years ▪ Must meet "125% rule" in order to retain tax advantages
Asset protection / risk	▪ No asset protection
Estate planning issues	▪ Dealt with under the Will
Cost	▪ Fees charged by the life company can be high – average 1%

* Reducing to 25% over 10 years

Ownership structure



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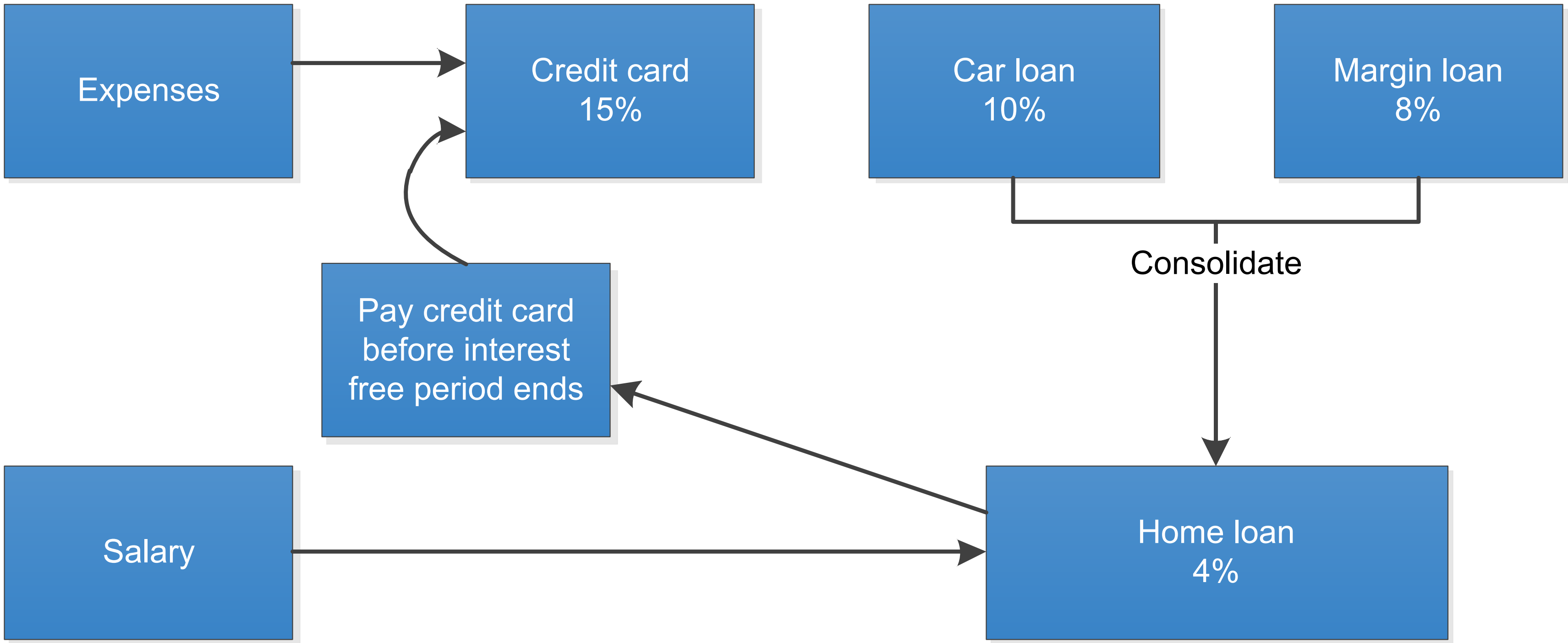
Debt consolidation

- Debt consolidation
  - Consolidate debts into housing loan using any excess borrowing capacity
  - Extinguish debts with higher interest rates
- Advantages
  - One loan with one payment
  - Interest payable is lower
  - Cashflow is freed – pay off debt quicker or finance new investment
- Disadvantages
  - Extending life of other loans
  - Increasing borrowings on home – puts property at risk

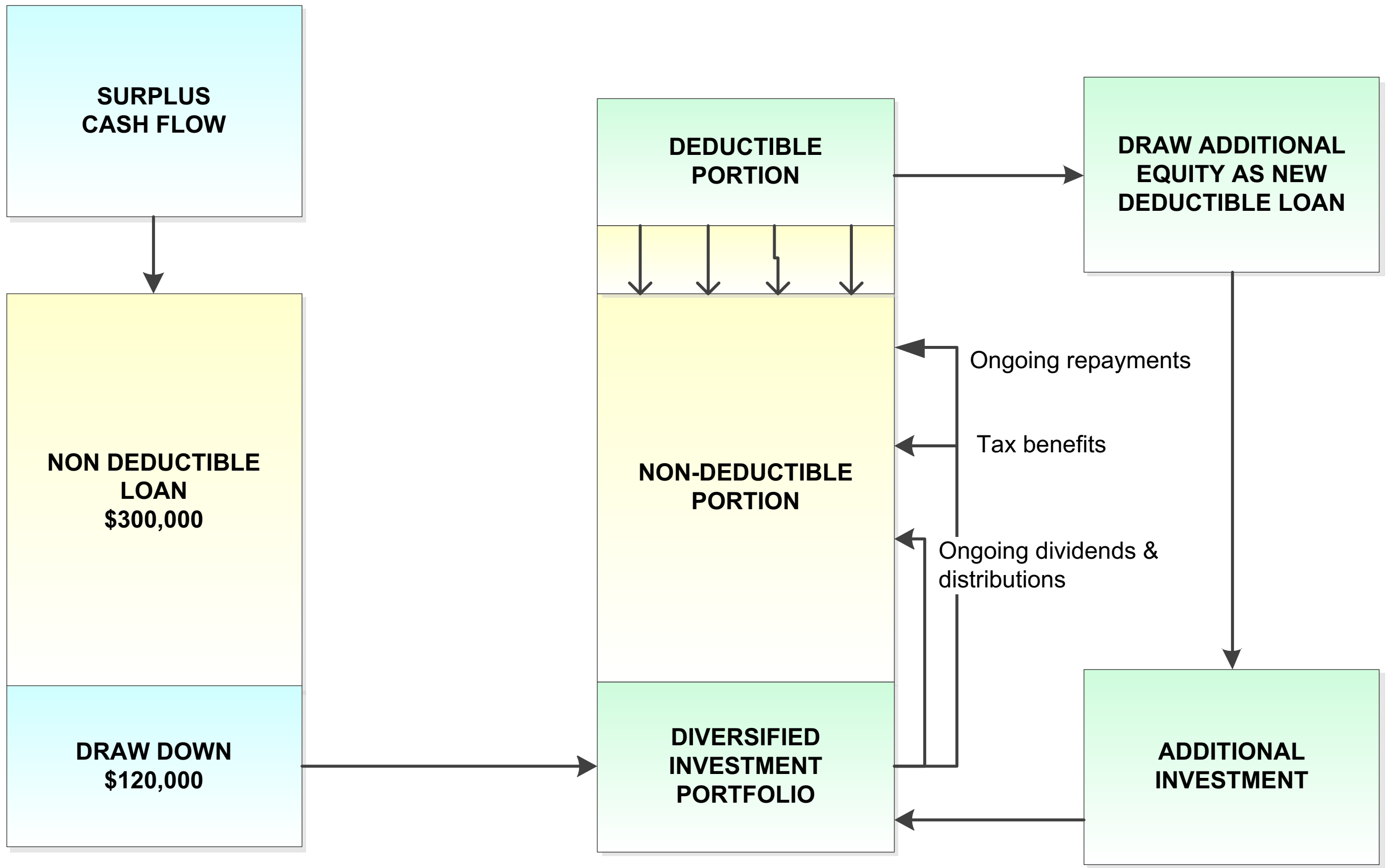
Debt consolidation



Structuring debt

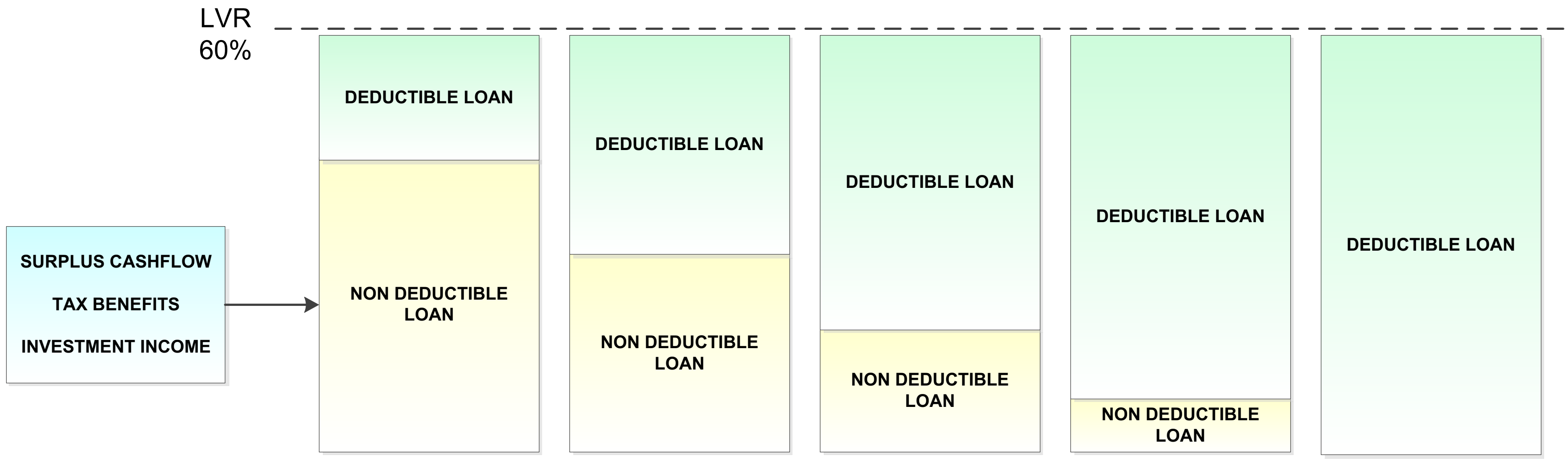
- Non-deductible – debt where interest is not tax deductible, e.g. home loan
- Deductible – debt where interest is tax deductible, e.g. loan on an investment property or margin loan

Debt recycling



VALUE OF HOME: $700,000
TOTAL LOAN: $420,000
LVR: 60%

Debt recycling



Gearing to build wealth

- Borrow to invest
- Multiplies investment returns
- Take advantage of a range of tax concessions
- Gearing increases profits but also exacerbates losses
- Not a short term strategy

So why does gearing increase risk?

Jane receives an inheritance and decides to invest. She considers two options:

1. No gearing
2. Gearing – 50% loan-to-value (LVR) ratio

	No gearing	Gearing ($100,000)
Total equity	$100,000	$100,000
Total borrowing	$0	$100,000
Total invested	$100,000	$200,000

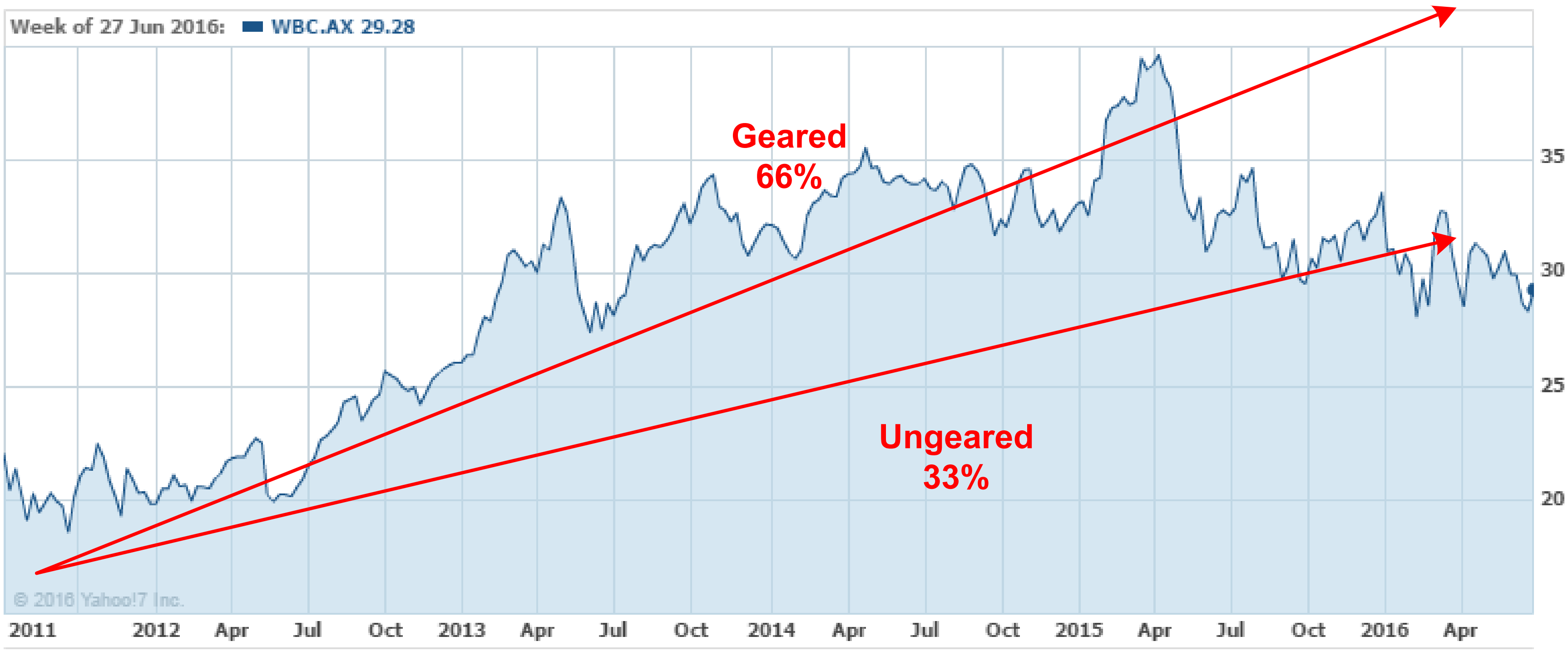
So why does gearing increase risk?

Jane invested in WBC last financial year

So why does gearing increase risk?

	No gearing	Gearing ($100,000)
Total equity	$100,000	$100,000
Total borrowing	$0	$100,000
Total invested	$100,000	$200,000
Return (-9%)	-$9,000	-$18,000
Value of equity	$91,000	$82,000
Return on equity	-9%	-18%

But will help to magnify long term returns



Types of gearing

- Unprotected Gearing (Higher risk/Higher Return)
  - Investment Property
  - Home Equity loans
  - Margin Loans
- Protected Gearing (Medium Risk/Medium Return)
  - Protected Equity Loans
  - Instalment Warrants (also SMSF approved)

Gearing – is it right for you?

- You need to be aware of the risks:
  - Gearing has the potential to magnify losses as well as gains
  - A fall in markets doesn't change the amount you owe to the lender
  - Changes in interest rates can impact on the cost of the investment
  - Margin calls can occur
  - Cashflow may be an important consideration

Tips for gearing

- Don’t over-commit
- Don’t cash in at the worst time
- Diversify investments
- Accurately assess your own Risk Profile to work out:
  - If gearing is appropriate
  - How much gearing is suitable
- Investment in quality assets which have track record for reliable income streams and capital growth
- Invest for the long-term
- Ensure you have a risk management plan in place

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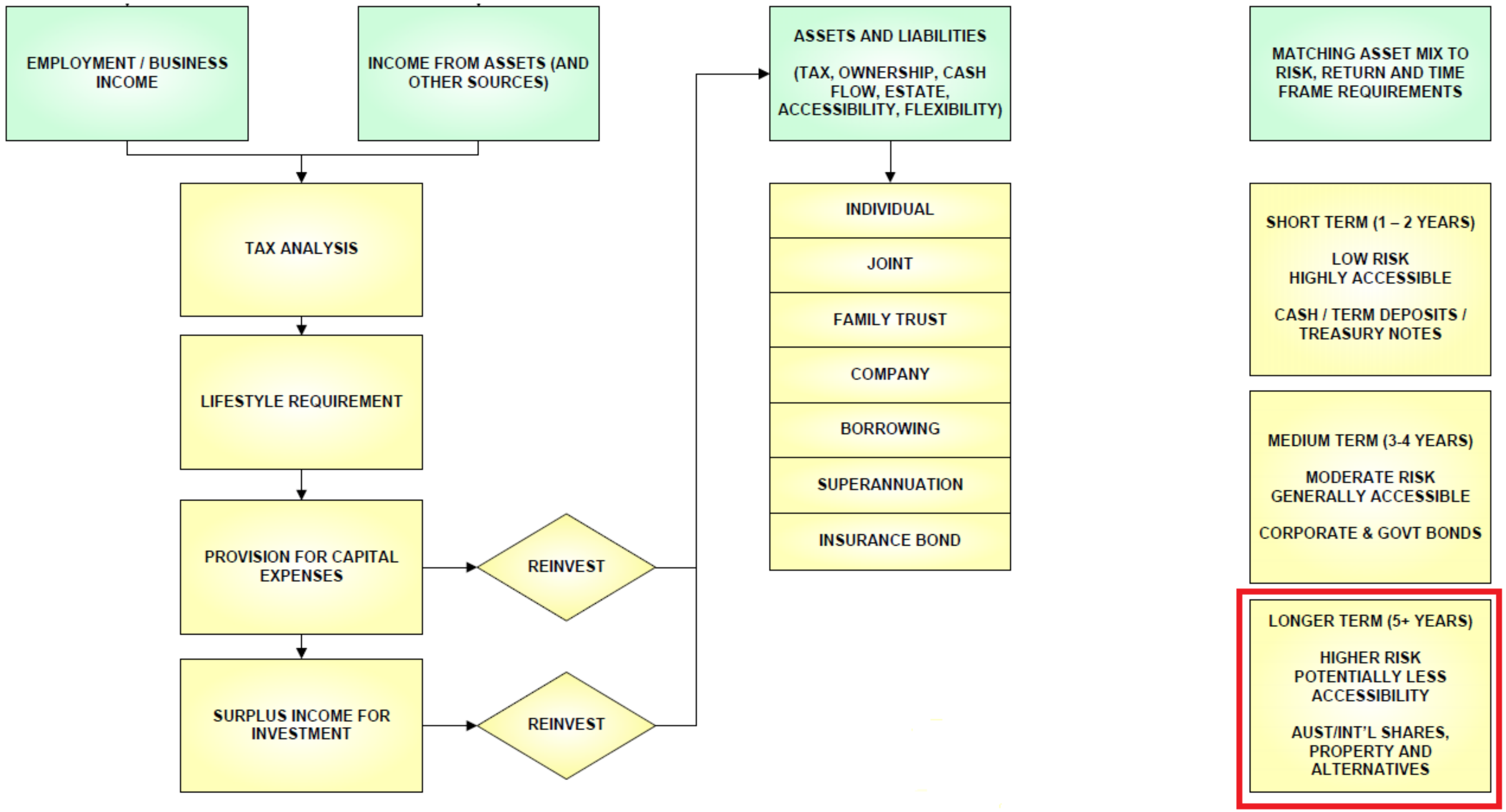
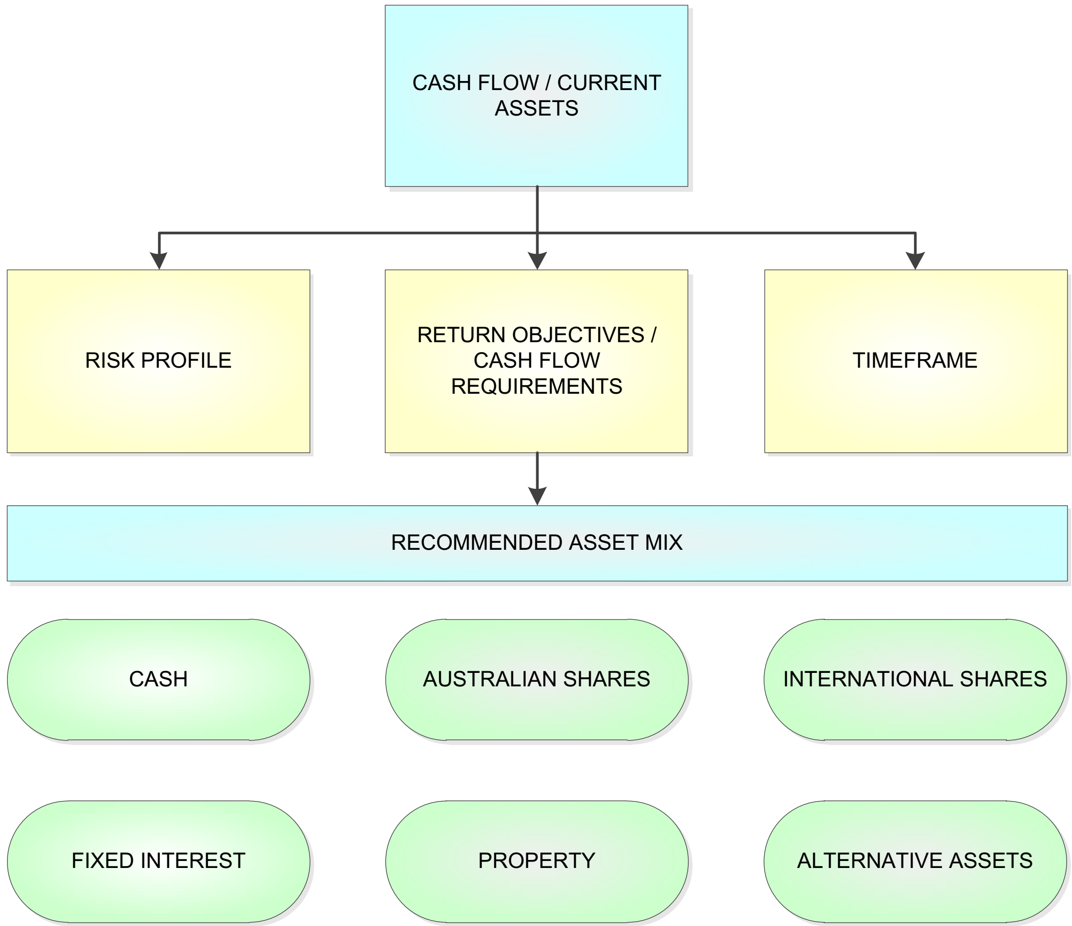
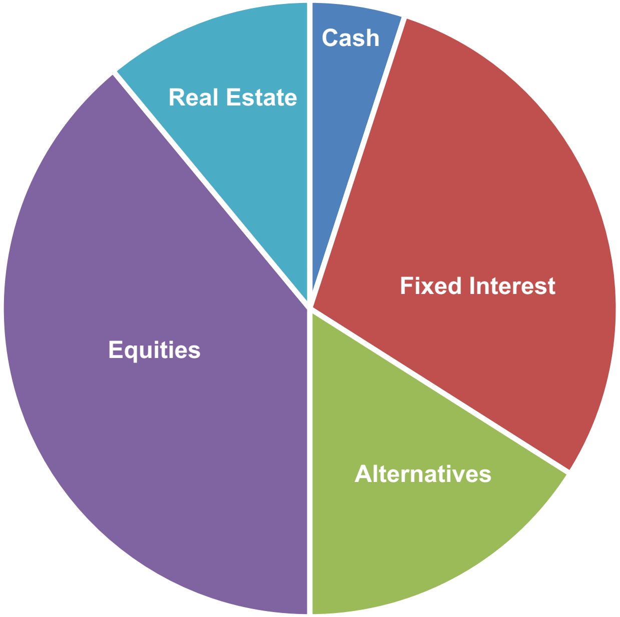
Investment Strategy



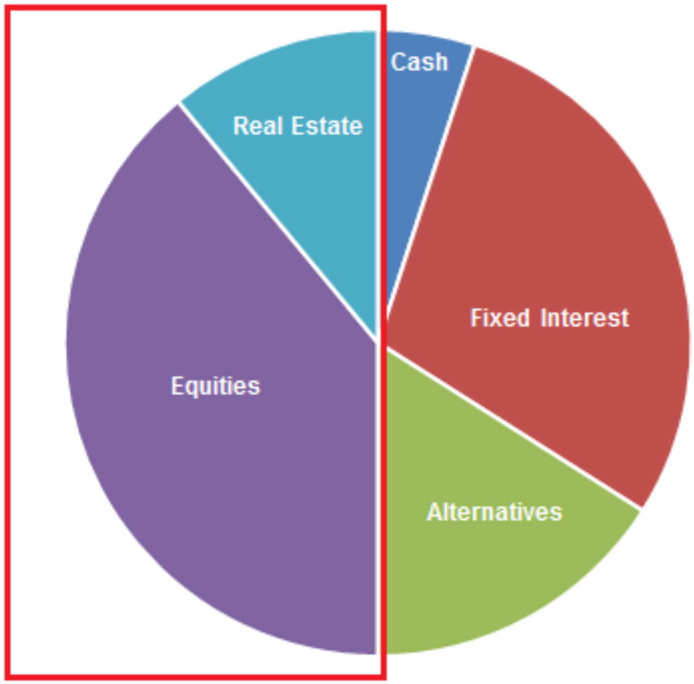
Investment Strategy



Investment Strategy



Investment Strategy



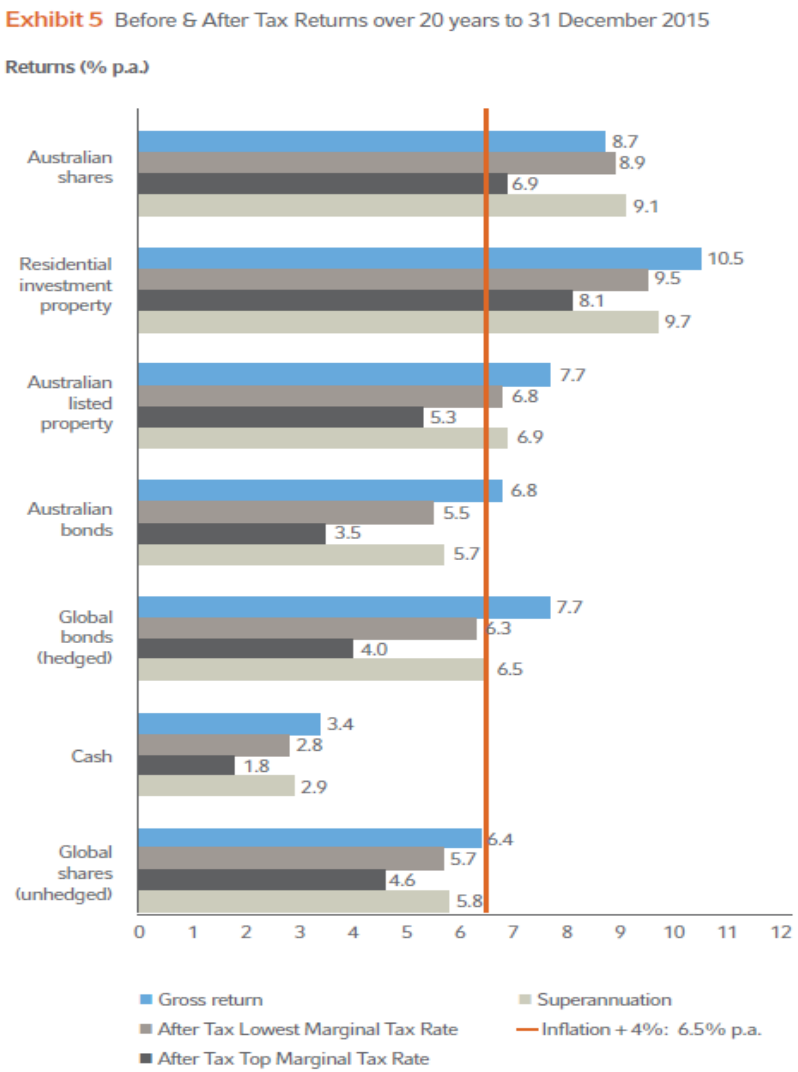
Direct residential property

Advantages	Disadvantages
Tangible and physical	Involves a high level of borrowing - Interest rate risk - Default risk
Transparent	High entry and ongoing costs
Steady income	Lack of liquidity
Compelling long-term returns	Tenancy risk
Take responsibility and control	Lack of diversification
Not as volatile	
Option of living in it	

Shares

Advantages	Disadvantages
Historical performance	Requires knowledge
Provides diversification	Volatility
Low start-up costs	Currency risk (international shares)
Tax benefits	

Investment performance – 20 years



Source: ASX/Russell, May 2016

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Strategies to accumulate wealth in super

1. Maximise Contributions

2. Commence a Pension

3. Limited Recourse Borrowing Arrangements

4. Transfer Business Premises to SMSF

1. Maximise Contributions

Making Concessional Contributions (CC)

- Reduces tax rate on contributed amount from your marginal rate to 15%

- CC include 9.5% SGC and Salary Sacrifice for employees & personal deductible contributions for self-employed

- CC caps are currently $35,000 (over 50) and $30,000 (under 50) - proposed to be reduced to $25,000 from 1 July 2017

1. Making Contributions

Making Non-Concessional Contributions (NCC)

- Tax on earnings generated by NCC inside Superannuation are limited to a maximum tax rate of 15%.
- NCC include any contributions made to Superannuation from after-tax money.
- NCC caps are currently $180,000 pa or $540,000 over 3 years if under 65 – proposed to be reduced to $100,000 pa or $300,000 over 3 years

1. Making Contributions

Exceeding your Contribution Caps

- Excess contributions will attract 47% tax plus Medicare Levy, which is the same rate of tax paid outside Super if on the top marginal rate

- Investment earnings are taxed at the maximum rate of 15% in your SMSF and 0% once your SMSF is in pension phase

1. Making Contribution

Increasing the number of members

- SMSF's can have up to 4 members

- The more members there are in an SMSF, the more that can be contributed.

- Adding more members can allow an SMSF to acquire larger investment assets sooner.

2. Commencing a Pension

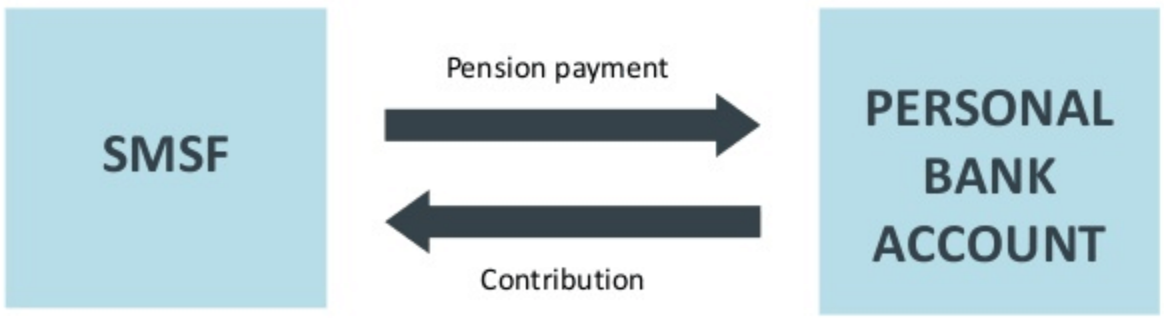
- Once you have reached preservation age (currently 56), you can access you super by drawing an income stream (IS).

- Earnings generated in pension phase are tax-free.

- IS is received tax free after age 60.
  Taxable portion of IS taxed at marginal rate if under age 60.

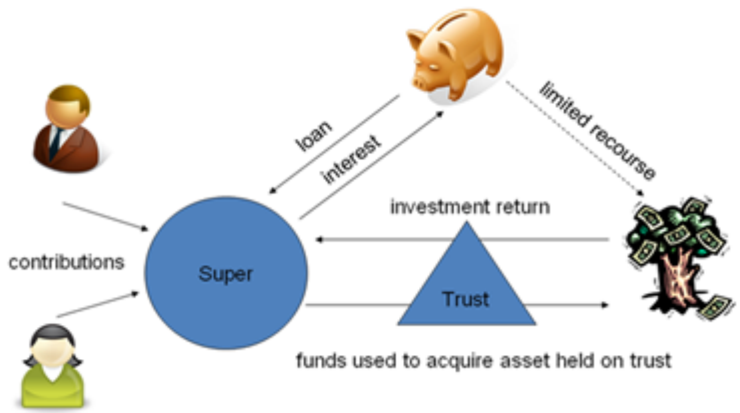
2. Commencing a Pension

- You may be able to re-contribute income drawn back into Superannuation Fund (need to meet work test if over 65).



- Earnings generated by Transition to Retirement IS proposed to be taxed at 15% from 1 July 2017.

3. Limited Recourse Borrowing Arrangement (LRBA)



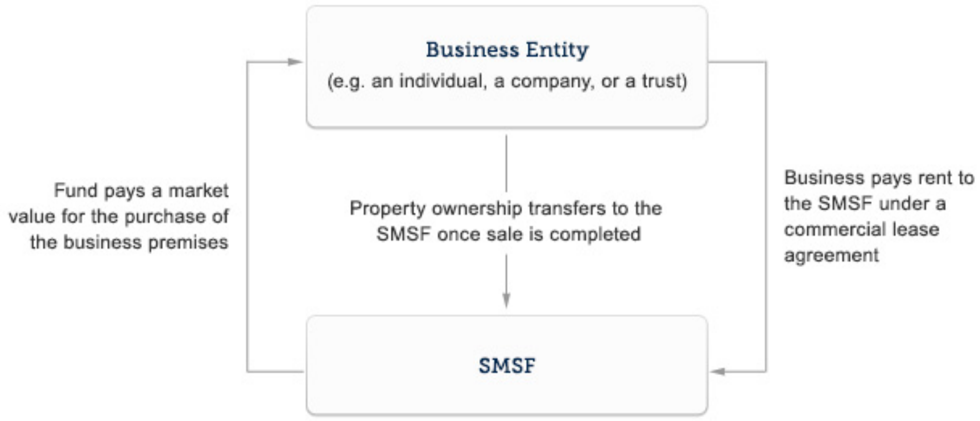
- Gearing multiplies investment returns.
- Loan is not counted as a contribution and will allow your SMSF to acquire larger assets.
- Investment earnings are taxed at a maximum rate of 15%.

4. Transfer Business Premises to SMSF

- Your SMSF is able to acquire Business Real Property (BRP). The BRP can then be leased back to yourself to use in the business.

- Rental Income and Capital Gains are taxed at a maximum of 15% in the SMSF and is tax-free when you are drawing a pension.

- Rent paid by you to your SMSF can be claimed as a tax deduction thereby reducing your personal tax.

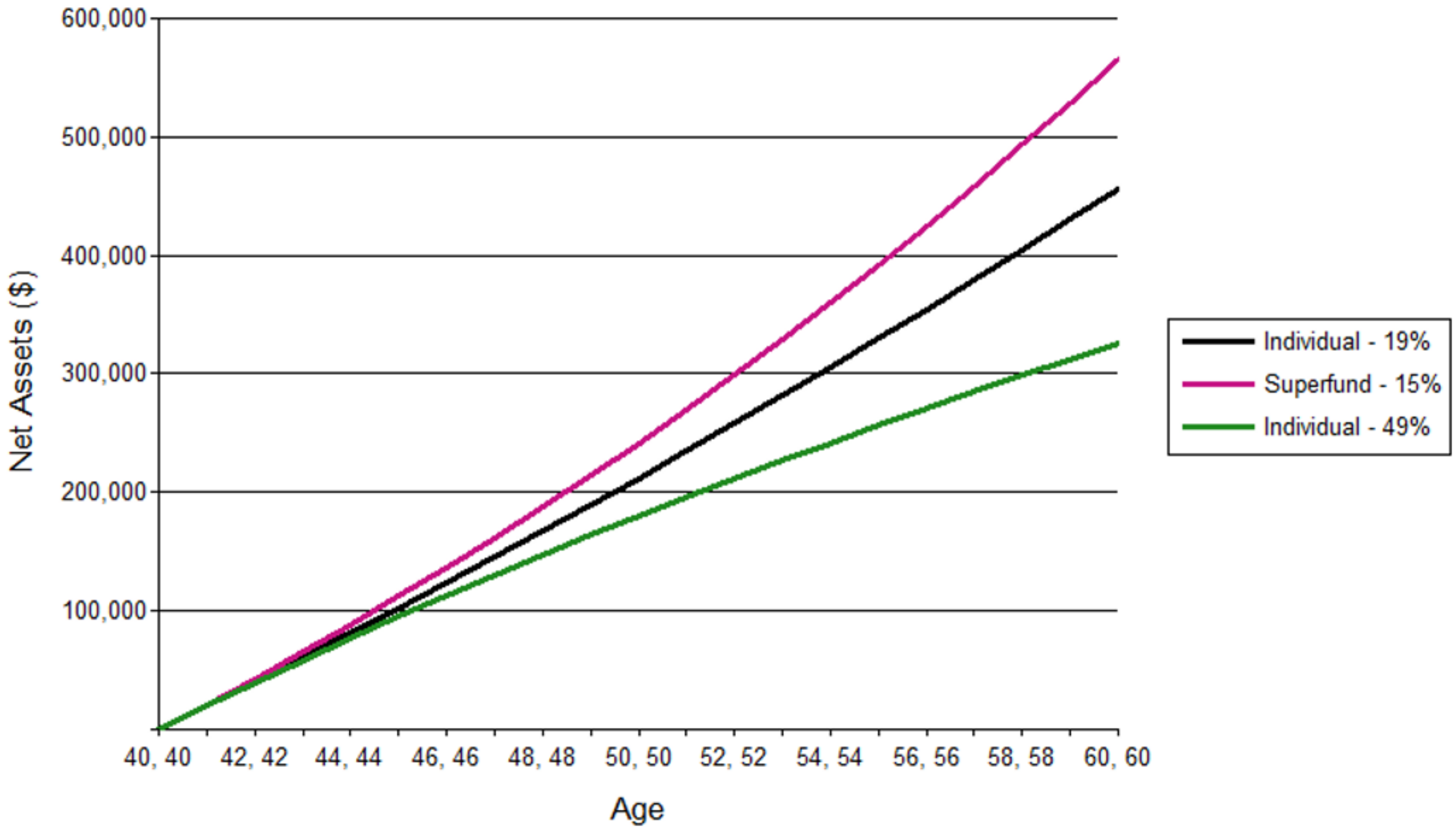


4. Transfer Business Premises to SMSF

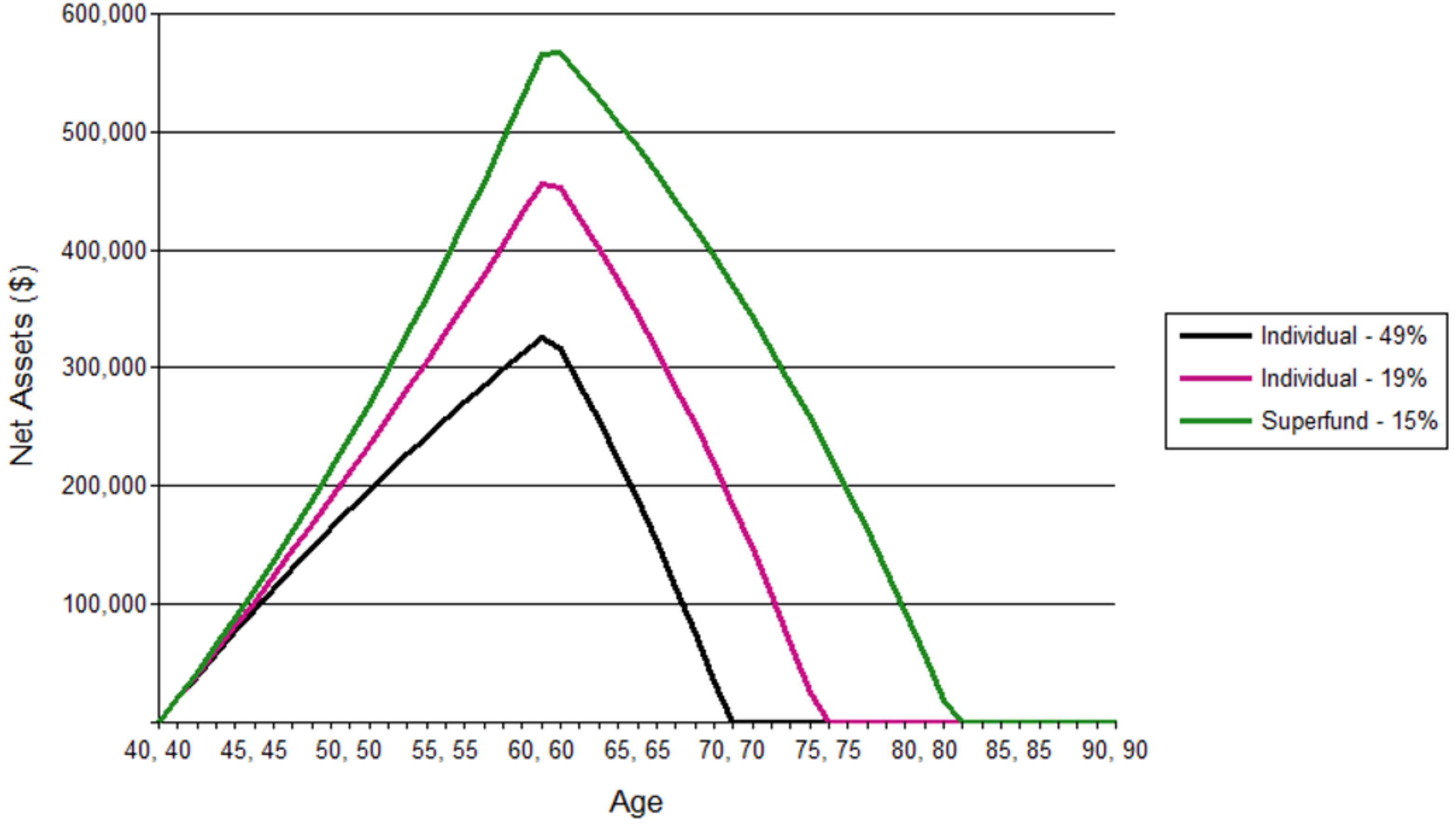
- Assets within an SMSF are generally protected from creditors and in the case of bankruptcy.

- You may be able to take advantage of the Small Business CGT Concessions:
  - 15-year exemption
  - 50% active asset reduction
  - Retirement exemption
  - Rollover

The decisions you make today…



Have an affect on your needs tomorrow



Conclusion

The keys to creating wealth are…

- Decide to do something
- Do it sooner rather than later
- Set a ‘destination’
- Assess where you are now – assets and cash flow optimisation
- Choose the most appropriate vehicle/s
- Structuring debts effectively
- Determine appropriate exposure to growth assets
- Be prepared to invest long-term & diversify

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Thank you