# Keep the tax man at bay

BUSINESS owners often see the business as their superannuation, thinking along the lines that come retirement day, they will sell up and live on the fruits of years of hard work.

The trick is to pick the fruit without leaving too much for the tax commissioner.

Adelaide-based financial strategist Theo Marinis suggests a transition-to-retirement (TTR) strategy as a way to migrate the assets to super: "While the business owner must be 55, they can boost their savings using franking credits built up over the years, and thus avoid a big tax bill."

Suppose that Brian and Tracey from Melton in Victoria already have amassed $1.3 million in their super fund.

On the sale of their family air-conditioning manufacturing-and-repair business, they are left with an after-tax profit of $1 million, held in the family company.

They could simply pay themselves all the cash at once, but this would incur a further 16.5 per cent personal tax in addition to the 30 per cent tax already paid by the company as corporate tax.

To do so would leave them with just over $764,000 of net funds to invest into super for their retirement

A better idea, says Marinis, is to draw on their existing super, while topping it up over time with funds taken from the company as fully franked dividends. As Brian and Tracey are both over 50, they can each take $100,000 a year in dividends from the family company, pay it into their respective super funds and claim a tax deduction for having done so, in what are called transitional, age-based personal deductible contributions.

The cash dividends going into the funds will carry a 15 per cent contributions tax. But since they will have been taxed at 30 per cent when they were earnings within the company, they will carry imputation credits that can be used to offset other income, or perhaps even refunded.

Brian and Tracey will be able to grow their retirement savings handsomely as they head towards full retirement.

"By each extracting $100,000 a year as dividends, they will make use of the imputation credits, run down the $1 million in retained profits over five years and move it into their super," Marinis says.

How it works is that Brian and Tracey will draw a combined $65,000 a year tax-free from their existing $1.3 million in super, via a TTR allocated pension.

No tax is payable on this income.

They will also each take $100,000 a year in cash dividends from their company for five years.

With imputation credits, this dividend has a grossed up value of $142,857 a year. It goes straight into their super funds (see table).

Each year, Brian and Tracey will make an undeducted (after-tax) contribution to super of their respective $34,757 tax refunds.

The net result is that the $1 million held in cash within Brian and Tracey's company gradually moves into super over the next five years.

This represents a net deductible super contribution between them of $850,000 over the next five years.

Added to this is the combined $69,514 a year in non-concessional or after-tax contribution of their annual imputation credit tax refunds, or $347,570 over five years.

All the super funds over five years are getting a total contribution of $1,197,570.

This is equivalent to an extra combined $433,284 contributed from their company dividends to their super account over the next five years, as a result of the strategy. It's a much better outcome than if they had taken it all at once.

Tim Blue

## Brian, Tracey transition to retirement

- Cash dividend payment: (franked) $100,000 pa each. Resulting imputation credit $42,857 pa each. Share of non-assessable, non-exempt income, the tax-free transition-pension income $32,500 pa each.
- Total gross income $175,357 pa each. Less deduction for cash super payment $100,000 pa each. Less share of tax-exempt (NANE) pension income $32,500 pa each.
- Total taxable income: $42,857 pa each.
- Tax payable on taxable income: $7457, plus Medicare levy $643.
- Total tax and Medicare due: $8100.
- Less tax offsets and credits.
- Imputation credit: $42,857.
- Estimated tax refund due: $34,757.
- Total annual cash flows. Share of tax-exempt NANE pension income: $32,500 pa each. Plus estimated tax refund due $34,757 pa each.
- Total net cashflows: $67,257 pa each.

Source: Marinis Financial Group

**Dividends:** Theo Marinis



Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
67 Kensington Road, Norwood SA 5067 T 08 8130 5130 F 08 8331 9161 E admin@marinisgroup.com.au

Financial Strategies (SA) Pty Ltd ABN 54 083 005 930, Australian Financial Services Licence No: 326403
Reproduced with the Permission of The Australian

MARINIS FINANCIAL GROUP