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OUR BUSINESS, OUR SUPER

As successful small to medium sized business owning baby boomers start to think about capitalizing on their years of hard work, they are confronted with a conundrum – how do they effectively get the superannuation benefits they deserve after a lifetime of hard work?

Small and medium sized businesses are the lifeblood of the economy and the entrepreneurial families behind them provide the drive and zeal which makes our country great. However, it has been hard in the past to effectively transfer the full value of this work into superannuation.

Adelaide based financial strategist, Theo Marinis has thought about this issue deeply and has devised a sound mechanism for small business owners to migrate their equity in their business to the superannuation environment.

"The first message is, don't panic if you didn't 'race' into super before the end of the last financial year – it doesn't matter. Despite all the hype over the last 12 months or so, Super did not "cease" on 30 June 2007. In fact, it remains as it always has been the most tax effective vehicle for people to save their investment for their retirement."

The next message is to make sure you have a competent financial planner, someone who is well versed in tax and super legislation as well as investment.

It is possible, once a family business has been sold by a family company, for its over 55 but under 65 year old principles to gradually migrate their equity from the business to a super environment while supercharging their investment through the franking credits built up over the years and allowing them a major tax deduction for their contributions.

Let's take the case of Brian and Tracey from Melton in Victoria. Their family company has sold their air conditioning manufacturing and repair business which was owned for 30 years and are left with a significant, undistributed after tax profit of $1 million cash, which is held within their family company.

If they just simply paid themselves all the cash in the company as fully franked dividends, they will be up for a further 16.5% tax over and above the 30% tax already paid by their company – leaving them with approximately, just over $764,000 of the $1 million cash in the company to invest for their retirement (in addition to the $1.3 million already in their super fund they have managed to save along the way.)

As they are both 60, they are eligible to take advantage of the legislation and migrate $100,000 each annually from their family company into super as deductible personal contributions for the next five years.

In other words, they are able to claim a 100% tax deduction for this annual contribution each under the new super rules. In doing so, they will also take advantage of the franking credits they have built up within their company (which was at the 30% company tax rate.)

Brian and Tracey can also use the Superannuation "virtuous circle" to actually draw down on their existing superannuation savings while they are still contributing new funds (from their company dividends) to super – which means they will be paying just 15% in superannuation contribution tax instead of the 30% the funds have already been taxed, in the company!

While to some people this may sound too good to be true, even the ATO have made it clear on numerous occasions and in public statement (including clarifying their position after the famous 2006 "Simple Super" budget) that they do not consider a Superannuation Pension strategy with a simultaneous Salary Sacrifice to super approach to be a breach of the tax planning regulation, Part IVA of the Taxation Act.

"By using this approach, Brian and Tracey should be able to grow their retirement "kitty" significantly in the lead up to their full time retirement, allowing them to have the kind of reward at the end of their working lives they deserve," said Theo Marinis.

Marinis further states "Also, by using the government's transitional $100,000 deductible super contribution limit that applies for those over age 50, during the period 1 July 2007 to 30 June 2012, Brian and Tracey can in a structured manner, transfer both the cash held in their business very tax effectively and also transfer a significant portion of the value of their company's Imputation Credits to their super accounts as well!"

The table below illustrates the benefits of Theo Marinis' Dividend Streaming Superannuation Strategy:

Brian and Tracey will draw nominated combined pensions of $65,000 pa from their existing combined $1.3 million dollars in super, which has been rolled over to 100% tax exempt pensions.

This will provide their annual income needs very comfortably.

In addition, they will also each draw the following Company Dividends:

Cash Dividend Payment (Franked Amount)	$100,000 pa each
Resulting Imputation Credit	$ 42,857 pa each
TOTAL "GROSSED UP" DIVIDEND	$142,857 pa each

Now, as Brian and Tracey do not require these funds as they have ample income for their lifestyle needs, from their existing super pensions, this Dividend streaming super strategy will work as follows:

Cash Dividend Payment (Franked Amount)		$100,000 pa each
Resulting Imputation Credit		$ 42,857 pa each
Share of Tax Exempt (NANE) Pension Income		$ 32,500 pa each
TOAL GROSS INCOME RECEIVED		$175,357 pa each
Less Deduction for cash Super Contribution	-	$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		$ 7,457
Plus Medicare Levy		$ 643
TOTAL TAX AND MEDICARE DUE		$ 8,100 Dr
Less Tax Offsets and Credits		
Imputation Credit		$42,857 Cr
Estimated TAX REFUND Due		**$34,757**

Thus total annual available cash flows (net of $100,000 deductible super contribution)

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

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As a consequence Brian and Tracey would also each year make a further Undeducted Contribution to super of their respective $34,757 tax refunds.

The net result of this strategy will see the $1,000,000 held in cash within Brian and Tracey's company gradually contributed to super over the next five years.

This represents a net deductible super contribution between them of $850,000, plus the combined $69,514 per annum in Undeducted Contribution to super of their annual Imputation Credit Tax Refunds for a further total additional super contribution between them of $347,570, for a total combined super contribution between them in the period 1 July 2007 to 30 June 2012 of $1,197,570.

This represents an additional $433,284 contributed from their company dividends to their super account over the next five years (as compared to the "get it all in at once" or "prior to 30 June 2007" approach!) setting them on a very, very healthy retirement!

*NANE = Non Assessable, Non Exempt.

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Disclaimer

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