# Grow @ Marinis Group

**From:** grow@marinisgroup.com.au
**Sent:** Tuesday, 19 February 2019 2:52 PM
**To:** Alex Wiedenmann | Marinis Group
**Subject:** There are times to be careful
**Attachments:** 2007_07_02__MR_10__Our_Business_Our_Super.pdf

Dear Friends,

**There are times to be careful**

One of my great privileges in life is to be surrounded by such good colleagues and clients (or friends) as I feel you all are.

The friends of Marinis Financial Group come from a range of backgrounds (from farmers to medical specialists, homemakers to MBAs, academics and engineers) and as would be expected, all come with diverse and interesting personal and professional circumstances.

The salutary story which follows (shared with client permission) reflects not only this diversity, but it serves as a reminder of just how vigilant we need to be to keep our financial objectives on track.

Most importantly, it highlights the benefits of regular monitoring and strategy reviews and having professional advisers who have the capacity to work together.

Because these dynamics were in play, our clients (who had achieved a highly successful outcome in terms of their retirement planning and saving) were able to avoid incurring a tax liability which had the potential to blow up their entire income strategy.

Names have been changed to protect privacy in this account.

**The retirement income strategy**

Rosie came to me prior to her retirement from the State public service, for advice regarding her various Super SA pension and lump sum commutation options.

After considering the pros and cons of the available options – essentially the downside risks of a 100% ABP (Account Based Pension) strategy versus the safety of a defined benefit public service pension, Rosie decided to commute 100% of her Super SA benefit to a lump sum, to be rolled over to Account Based Pensions. Being over age 60, the ABP income on her NET benefit of $1.2 million would be 100% tax exempt. There would be NO required reduction in ABP income should her partner survive her.

Rosie also liked the fact that post their demise, their estate would receive their remaining ABP balances and (with the correct strategies in place) their children and grandchildren would also receive any remaining ABP balance 100% tax free.

(They are hoping, however, that by the time this happens they will have funded a wonderful and long self-funded retirement and their ABP will be significantly reduced).

The simple reality is that the stock market has returned on average, over the last 100 years, a return of more than 7% pa (and over the last decade just below 10%)! These long-term results, however, come with gyrations, as we are currently seeing. And of course, as mentioned previously, their remaining ABP retirement savings will form part of their estate. A defined benefit public service pension balance would not grow – and it dies when the survivor of the partnership does.

Now, that is all fairly typical information (but still exciting for our clients – and for me!) There was however, a further level of complexity to Rosie and her partner Johnny's financial position.

**The business income strategy**

When she left her public sector position, Rosie was at the top of her game. Her skills as a consultant were (and are still) in high demand, and her consultancy work pays very well.

With the new and exciting realm of consulting, running a business (with more cash coming in from multiple sources and going out than she had experienced or expected) paying her own GST, insurances etc, there was clearly a need for structural business and taxation advice.

As part of our recommended strategy, we referred Rosie and her partner Johnny to accounting professional Marco Piteo to provide this advice, which would result in the establishment of a company structure designed to enable discretionary 'dividend streaming'.

This process which would allow them to tax effectively manage their business income, whilst drawing the bulk of their income requirements (tax free) from their retirement savings 'machine'.

***For information on how dividend streaming works, please refer to the attached Media Release.***

The outcome meant that the family had cash now, with a growing future nest egg for their children in BOTH super and within their company structure.

**Getting it back on track**

During a scheduled portfolio and strategy review I noted with some alarm that Rosie and Johnny had been drawing regular cash from their company cheque account, without being aware of the tax implications, or the fact that they had access to tax free funds via their ABPs.

They were also hoping to withdraw a substantial lump sum from their company investment account, which would have locked in an almost six figure personal tax liability.

**Working closely with Marco, we were able to take prompt action to avoid the potential tax damage before it was "triggered" on lodgement of their next tax return (at which time it would have been too late for any remedial action). Fortunately, we were able to achieve this outcome with minimal changes to their original income strategy.**

**Knowledge gained & lessons learned**

With hindsight, it was perhaps not surprising that Rosie and Johnny overlooked the tax implications of withdrawing funds directly from their company, despite the tax structures which had been established to provide them with optimum tax effectiveness. For them it was a closer fit to the concept of receiving regular employer payments, without having to consider the complexity of different tax environments.

The experience highlights the need for all parties (including professional advisers) to ensure that there is full understanding of the strategies being recommended.

From your perspective as a client, you should NOT be afraid to NOT sign documentation if you do not understand, or if you are unsure about what is being arranged on your behalf.

Similarly, you should never be embarrassed if you have lost your notes, forgotten which bank account to use, or if you need get back in touch with your financial planner and/or accountant to confirm any aspect of your financial arrangements. We are paid to help. And remember, not all cash is equal in the eyes of the ATO.

There is also immense value in having your financial planner working with your accountant/solicitor /mortgage broker as part of your 'Financial Board of Advice'.

From my point of view, I was delighted to be able work with an accountant who was prepared to drop everything to help our mutual clients in a time of inadvertent distress. Had Marco and I not been able to be co-operative and collegiate in our working relationship the outcome might not have been quite so satisfactory.

Overall, it is a good time to remind ourselves that we should all be careful to know and follow the strategy, especially if matters get a little complex.

**And one more thing:**

You may have noticed a lot of scary media commentary about the "bottom falling out of house prices". I can't help wondering how much of this is just hot air.

The same applies to the recent volatility in the share markets. As mentioned previously, the share market too has ALWAYS grown in the medium to long term, despite these regular pull backs, corrections – and from time to time – bear markets.

These current financial events are exactly why our mantra is to "Get rich slowly" and also why we always recommend a "Marinis (cash) Buffer". It is a proven, prudent strategy which has served my long-standing clients well even during the GFC (which was the biggest market decline in almost 80-years since the Great Depression).

Please go to https://marinisgroup.com.au/media/2019/ to see my latest media articles.

Kind Regards,


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**GROW @ Marinis**

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**Media Release No: 10 – 2nd July 2007**

# 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.



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"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 |

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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