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A Professional Approach to Building Wealth

Theo Marinis shares some tips and the golden rule - compound interest - that will help steer professionals towards making the most of their earning potential.

By Theo Marinis
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There's a perception doctors make great money. This might be the case for surgeons with private patients. But many of our doctors remain servants of the public, diligently working in our enviable health system. They are more likely to drive a Volvo than a Maserati.

But there is a lot the average doctor, or any professional income earner, can do to seriously grow wealth. This article uses the example of the medical profession but the principles and strategies aren't exclusive to doctors. They can be applied to the legal, accounting, engineering, academic or artistic professions.

There is a saying among doctors on the secret to achieving financial success: when a junior doctor, live like a student; as a registrar, live like an intern; when a consultant, live like a registrar. Make your spare cash work for you. The secret is to start early, so that compound interest can do much of the heavy lifting.

Superannuation offers great opportunities for tax-effective wealth creation. It should never be seen as a personal asset. It belongs to the family unit, whatever form that may take, and having that mindset really helps. My mantra when contributing to superannuation is: as much as you can, as soon as you can, for as long as you can. This principle should be considered across the family unit.

After four to six years at university, most doctors transition from being dirt-poor students to earning a base annual salary of around $80,000, with overtime taking those earnings to about $100,000 per annum. They will be universally employed by training hospitals, which usually direct 17 per cent of that annual income into superannuation. Keeping it simple, let's say this contribution amounts to $17,000 in year one, which, in wealth creation terms, is a great start.

Interns usually start in the second week of January. Pro-rata tax will be deducted on earnings of around $80,000 p.a., with the result that due to the sudden jump in income in the second half of the financial year (in terms of PAYG Withholding Tax) they will have been over-taxed by around $10,000.

Come August, and on lodgement of a tax return, this beautiful, enforced saving is returned by the ATO – providing an excellent opportunity for a super top up.

By contributing this unexpected $10,000 tax refund into super as a personal Concessional Contribution (CC), $27,000 can be achieved as a total gross CC, just $500 short of the maximum allowable amount (or a net $22,950 after payment of 15 per cent tax on the way into super). For the young doctor, contributing this net amount into their long-term savings is a brilliant start to enjoying the benefits of compounding interest.

Remaining with our junior doctor example, the carrot at the end of the stick is a consultant's salary in a public hospital, earning around $400,000 p.a. The sting is that almost half of this remuneration will be paid in tax. But there are great ways for these, and all professional income earners, to redirect income to enable them (and their families) to maximise government incentives to save for the future.

The first rule is to aim to get the current maximum allowable Concessional Contribution (CC) of $27,500 into superannuation each year. Be careful not to exceed this amount, as there are significant penalties and a lot of bureaucratic hassles involved in correcting this mistake after the event.

For those who don't utilise their maximum CCs every year, there is now a catch-up opportunity.

Since 2019–20, carry-forward rules allow any worker who fits the criteria below (which would include most professionals under the age 40) to make concessional contributions above the general concessional contributions cap without having to pay extra penalty tax.

The CC carry-forward arrangements involve accessing unused concessional cap amounts from previous years. An unused cap amount occurs when the Concessional Contributions made in a financial year were less than your general Concessional Contributions cap.

To use unused cap amounts, two conditions need to be met:

- Your total super balance at the end of 30 June of the previous financial year is less than $500,000.
- You made Concessional Contributions in the financial year that exceeded your general Concessional Contributions cap.

Before taking up a consultancy position (this can apply not only to doctors, but to professionals moving from public sector employment to earning an income within the private sector) most will have established a life partnership. Depending on a partner or spouse’s income, there may be ways to ensure that they also contribute personal Concessional Contributions of up to $27,500 p.a. to super, creating a net tax benefit of $8,800 p.a. (based on a personal tax rate of 47 per cent versus the maximum super fund tax rate of 15 per cent).

On becoming a consultant (or GP) I recommend seeking accountancy, legal and financial planning advice to examine the viability of establishing a corporate structure to hire out your services.

Depending on tax structures and your employment conditions, part of your consulting income may be payable to a family-owned trust, which may reduce the total amount of tax paid, and spread the benefits of your labour amongst your loved ones. For example, your service company may employ your partner to manage your practice, allowing up to $27,500 p.a. in Concessional Contributions to be paid to their superannuation (as per the example outlined above) – thus reducing the overall family tax burden.

If, in the future, there are children in your family working part time, you could contribute $1,000 per year to superannuation on behalf of each child (subject to meeting all the criteria). This would mean they will be eligible to receive a co-contribution from the government of $500 per year.

This free top-up is not only a great way to kick-start your children's long-term savings habits, but it also provides an opportunity to educate them about compounding interest.

Bear in mind that superannuation also has a ceiling (currently $1.7 million per person) where this golden contribution opportunity runs out. It is vital, therefore, to ensure that both parties are maximising their $1.7 million threshold.

Nevertheless, in simple terms, and based on a conservative 5 per cent p.a. return, a couple with a combined $3.4 million at retirement will have an income of $170,000 p.a. – tax free from the age 60.

To avoid exceeding the $1.7 million threshold, it is recommended that when that point is close to being reached, contributions (other than the mandatory Super Guarantee) are ceased.

If you have been diligent in making superannuation contributions from an early career stage, there is a good chance that many professionals will reach the cap by their mid-50s.

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