

Lifestyle Focus

Spring 2015



Image source

It's time to put the cold, grey days of Winter behind us and embrace Spring, the season of new growth and prosperity.

So, with a 'Spring Clean' theme in mind, we've provided some food for thought inside this edition of Lifestyle Focus to prompt a look over some of those affairs that perhaps we don't always make time for. With specialist advisors across our six pillars of advice, give us a call to discuss any of these 'odd jobs' and avoid any unnecessary anxiety.

With volatility returning to global investment markets, we thought it an opportune time to reflect on the wisdom of investment professionals over the years; A reminder to stay focused during times of 'noise'.

Finally, we've included some tips for spending your money and time on creating good cheer and happiness in life, because that's what it's all about.

Warm regards

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360Private Wealth By Design

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It's all about the structure

In the 2015/16 Federal Budget the Government proposed further relief for small businesses that wish to change their structure. The proposal should facilitate the transfer of business activities to another entity without triggering a Capital Gains Tax (CGT) liability.

Despite the proposed changes there is no substitute for good advice during the initial stages of business commencement. Likewise, advice around appropriate structures for investment activities can prevent costly issues arising in the future, as relief for changes to investment structures is scarce in comparison to that available for business operations.

Often we see situations where the family business is viewed as the family's 'superannuation' for retirement. Any excess funds are invested back into the business and the owners take only what is required for cost of living purposes. As a result, the owners usually have little superannuation as their retirement fund is effectively the equity in the business. In these situations it is vital that the appropriate structure be utilised so that tax on the sale of the business can be minimised and the retirement benefit maximised. In an investment scenario, consideration needs to be given to flexibility of access by underlying investors and the taxation implications of withdrawing value from the entity. The Small Business CGT Concessions are often used by our experienced advisors to ensure that a client's financial position is maximised during these transactions.

Unfortunately there are no hard and fast rules when it comes to determining the appropriate structure. A strategic advisor with experience in these issues is able to view the situation holistically to assess the events likely to occur in the future. Following this assessment, an informed decision can be made as to a structure that will provide the best outcome.

360PWBD has a wealth of knowledge and experience regarding structuring issues and is well placed to discuss both new ventures and improvements to current structures. Contact one of our advisors today to discuss how we may improve your situation and facilitate the achievement of your goals.

Depreciation differences: old Vs. new residential properties

Property depreciation is a non-cash tax deduction available to the owners of income producing properties. As a building gets older, items wear out – they depreciate. The Australian Taxation Office (ATO) allows property owners to claim this depreciation as a tax deduction. Depreciation on items such as carpets, stoves, blinds, hot water systems, light shades and heaters are all valid deductions. There is also a deduction available for the wear and tear on the structural element of a building, commonly called building write-off.

Investors often wonder about the depreciation potential of older properties compared to new properties. The simple answer is that new properties will get higher depreciation deductions, however all investment properties both new and old can attract depreciation deductions.

New properties have new fixtures and fittings, so the starting value of those items is higher, resulting in higher depreciation deductions. The same applies to the building write-off allowance. 2.5% of the structural costs of a building can be claimed per year for forty years. Construction costs generally increase over time, making building write-off deductions on new buildings higher.

Owners of older properties can claim the residual value of the building up to forty years from construction. For example, if an investment property is five years old, the owner will have thirty five years left of building write-off to claim. Building write-off is governed by the date that construction began. If a residential building commenced construction before the 15th of September 1987, there is no building write-off available. Investors who own properties that are built before this date will still be able to make a claim on the fixtures and fittings within the property and include any recent renovations, even if the renovation was carried out by a previous owner.

Investment & Portfolio Advice

Our favourite investment quotes

Given the current market conditions, we find it is often comforting to revisit a few famous quotes from some of the best investment managers. Here are some of our favourites.

“Rule one, never lose money. Rule two, never forget rule No. 1.” - Warren Buffett

Of all the investment quotes, this one remains the simplest and perhaps most widely quoted. It serves as a reminder that there is nothing harder than trying to make up for lost capital.

“I buy on the assumption they could close the market the next day and not reopen it for five years” and “Much success can be attributed to inactivity. Most investors cannot resist the temptation to constantly buy and sell.” - Warren Buffett

Unless you really want to put a lot of time into trading, it's advisable to only invest in assets you would be comfortable holding for the long term. This can be less risky than constantly trading in response to short term predictions and all the noise around investment markets.

“Know what you own, and know why you own it.” - Peter Lynch

Do your homework before making a decision. And once you've made a decision, make sure to re-evaluate your investments on a timely basis. A wise holding today may not be a wise holding in the future.

“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas.” - Paul Samuelson

If you think investing is gambling, you're doing it wrong. The work involved requires planning and patience. However, the gains you see over time are indeed exciting!

“Unless you can watch your stock holding decline by 50% without becoming panic stricken, you should not be in the stock market.” - Warren Buffett

Recessions and bear markets are a normal part of investing. But history tells us markets eventually recover. It is important to not get in during good times only to get out after a bear market & miss the recovery.

Risk Protection Advice

Does my business need key person protection?

If you run a business then chances are you are well aware that your employees are your biggest asset.

If you have found an employee or a few employees that have a higher level of competence than the others then you may notice increased profits and an improved customer relationship with your clients.

The loss of the managerial skills, expertise and leadership of a key person can have a substantial impact on revenue and profitability.

Considerable costs can be incurred in recruiting and training a suitable replacement. There may also be an adverse impact on the business' goodwill and its ability to repay debts or other expenses.

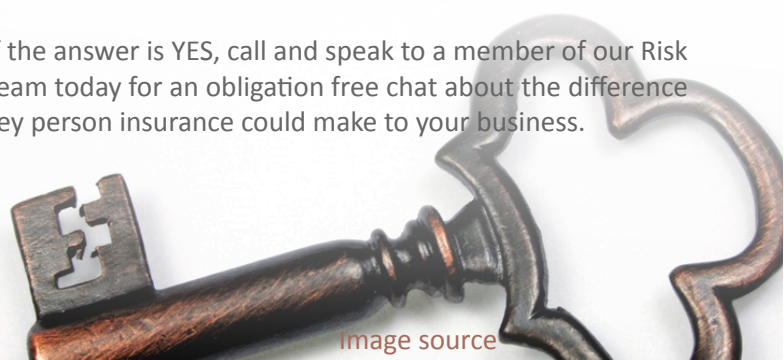
Key person insurance is an insurance policy taken out and owned by a company, trust, partners in a partnership or sole proprietor, on the life of a key person in the business.

The purpose of the policy is to protect the financial position of the business by providing a lump sum payment to offset the estimated losses that would arise upon the death, total and permanent disablement (TPD) and/or critical illness (trauma) of that key person.

If you are in two minds about purchasing key person protection then you should ask yourself these three important questions:

- Will your business suffer financially if you have to replace the key person?
- Would any of your business relationships with clients, creditors or customers suffer if one or more key employees were not working with you anymore?
- Will it be costly to replace the key person if they are significantly injured, fall terribly ill or if they pass away?

If the answer is YES, call and speak to a member of our Risk Team today for an obligation free chat about the difference key person insurance could make to your business.



Succession & Estate Planning Advice

Testamentary trusts

A testamentary trust is any trust established under a Will.

Why are they becoming more popular?

Testamentary trusts provide the ability to protect assets and can also reduce the tax paid by beneficiaries from income earned from their inheritance. This provides a greater level of flexibility and control over the distribution of assets to beneficiaries.

Why should you consider a testamentary trust?

- **CGT benefits**
Assets owned by the deceased that would have been subject to capital gains tax (CGT) had they sold them before their death, can pass through their estate to a testamentary trust without a CGT event occurring.
- **Income tax advantages**
Rather than being taxed at the top marginal tax rate, income from a testamentary trust can be distributed to minor beneficiaries (children or grandchildren under the age of 18) with adult marginal tax rates applied. This includes the tax free threshold of \$18,200 (or \$20,542 if the low income tax offset applies).
- **Protection of assets**
Testamentary trusts provide a level of protection to the assets held in the Trust. This includes protection against creditors of beneficiaries who may want to recover amounts owing to them from the Trust's assets. Testamentary trusts also offer protection to the beneficiary in the case of bankruptcy and in the Family Law Courts in the case of a divorce.
- **Protecting 'at risk' beneficiaries**
For beneficiaries who may be unable to properly manage their financial affairs due to an addiction, disability or simple inability to manage funds correctly, testamentary trusts allow the bequeather to ensure that an adequate fund is set up to meet the beneficiary's needs without affecting any Centrelink benefits they may be entitled to.

360Private Wealth By Design acts solely and as a joint trustee on a number of testamentary trusts for our clients. Speak with us today to see how we can help you with yours.

Personal & Self-Managed Superannuation Advice

Contribution reserves - changes & how they may relate to you

What are contribution reserves?

Contribution reserving occurs in a SMSF when contributions are deposited into a reserve account rather than being directly allocated to a particular member. These contributions are then transferred out of the reserve and allocated to a member in a later period (which must be within 28 days after the month in which the contribution was made).

This strategy is often used at the end of a financial year with a contribution being made to a reserve in June then allocated to the member's account in July. This allows for the individual to claim the deduction and the super fund to include it as assessable income in the current year, but the contribution is attributed to the member's concessional contribution cap in the following year.

The fund must ensure that the Trust Deed allows for such a strategy and that valid contribution strategy documentation has been prepared.

What are the changes?

Since the ATO's publication TD 2013/22 all contributions, including the amounts in a reserve, had to be reported in the super fund's annual return. Then an objection to the ATO's excess contribution assessment was required.

The ATO has now advised that a [Request to Adjust Concessional Contributions Form](#) can be completed and lodged (preferably prior to the SMSF and individual annual return lodgements) and the ATO will adjust their records to allocate contributions as per the reserve strategy rather than the annual return.

What does this mean for you?

If you had a contribution reserve in the 2014 financial year you may still be issued with an excess contributions assessment (the ATO has advised that these can take up to 12 months to be issued). Once issued, please provide it to your SMSF accountant and they will assist you with lodging an objection to the assessment.

If you have a contribution reserve for the 2015 financial year, your SMSF accountant will prepare the Request to Adjust Concessional Contributions Form with your 2015 SMSF annual return.

Tips for spending money to create more happiness

There are many quotes supporting the idea that money cannot buy happiness. We think this is a bit of a grey area because there are most certainly ways in which you can spend your money that will help to create more happiness for you and your family. Want to know how? Here are our top three tips for spending money to create more happiness:

1. Budget for small, regular outings rather than just one big one.

When it comes to spending money on pleasure outings, most of us are guilty of only thinking big. Why not think smaller, with more regularity? A number of less expensive outings to look forward to and experience can bring much more happiness than just one big one.

2. Invest in at-home family activities.

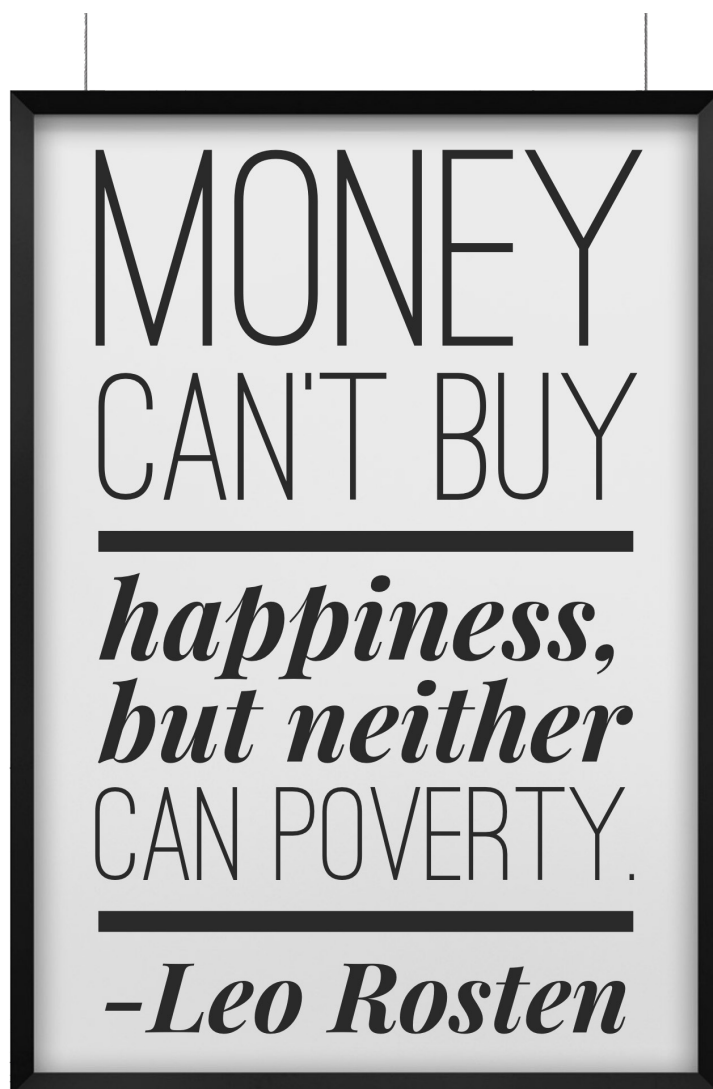
Spend some money on things that encourage quality family activities. Invest in some outdoor sports equipment or start building a games library. Spending quality time together will bring far more joy to your family's life than sitting in front of different screens and different devices.

3. Buy a membership.

If you have young children, why not consider buying a Zoos SA membership? Membership will provide you with access to unlimited visits to the Adelaide Zoo and Monarto for the whole year.

Or how about memberships for the whole family at your local library or even the delightfully modern City Library in the CBD. Invest your time in taking everyone on a regular outing to borrow books, videos and magazines and spend your money on a little treat each to make the trip extra fun. Coffees and hot chocolates all round in winter? Ice-creams and fruit sorbets in Summer?

You will note that each of the three tips above involve experiences rather than things. A little extra tip for you is that you'll find greater happiness in moments rather than in materials, so be conscious of spending your money more on experiences rather than on things if you're wanting to use your wealth to create more happiness in your life.



What's on in Spring?

Spring is when Adelaide and South Australia start to come alive again, with food festivals and fun weekends popping up all over the place!

Bay to Birdwood Classic

Happening again on 27 September, enjoy breakfast with jazz & classic cars in Glenelg or see the cars along their route.

More information [here](#).

CheeseFest

Adelaide's speciality cheese gourmet festival happens in Rymill Park/ Murlawirrapurka and will take place from 23-25 October.

Visit the [web site](#) for more details.

Australia's International Three Day Event

Australia's premier equestrian competition! More details [here](#).



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