ENTIRE
ACCOUNTING AND TAX PTY LTD

2018 Autumn Newsletter

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Christmas festivity, New Year resolutions, and the summer fun of 2018 is now but a memory.

Even the early Easter we have just enjoyed in days, weeks and months, it is a reminder of just how fast time passes.

As each of these events moves from the future to the present to the past it reminds me of a piece of literature that quotes that winter is slumber, spring is birth, summer is life and autumn rounds out a period of reflection.

Autumn is said to be the time when mother earth has just closed the curtain on another year and it's time to reflect on what has come before, and for this reason Autumn carries more gold in its pocket than all the other seasons.

If we do look to take some of these quotes literally, from a planning perspective Autumn is the ideal time to reflect on finances yet difficult as living in the present is often time deprived.

> 'It is difficult to live in the present, ridiculous to live in the future and impossible to live in the past. Nothing is as far away as one minute ago.' *Jim Bishop*

It takes a commitment to plan today for tomorrow, and the past is gone before you even realise it.

In autumn we find ourselves with 3 months of the present, a time we also have almost 90 days to go before the end of another financial year has passed.

This quarter's newsletter is looking to remind our clients there is ample time to plan, review, and maximise current opportunities.

We have looked to cover a range of topics and ask that if you would like to make a time to have a pre June 30 review meeting, discuss any of the articles in this newsletter, or simply get an update on any of your current investments, insurances, finances, superannuation or tax matters please call our office, as we are here to encourage and work with you on these important wealth matters.

We hope you enjoy the Newsletter.

General Advice Warning

Information provided in this newsletter is general in nature only and does not constitute personal advice. The information has been prepared without taking into account your personal objectives or needs. Before acting on any information in this newsletter you should consider the appropriateness of the information having regard to your objectives and needs.

Inheritance, Centrelink and Wills

By the pure nature of it, receiving an inheritance tends to come at a time when we are grieving, and at this distressing time, we need to understand whether the inheritance itself impacts a Centrelink aged pension benefit.

The key to this is the size of the inheritance, and is dependent on one's existing wealth and how this wealth is structured.

The Age Pension payment will stay the same if you are under the assets test and receive a small inheritance.

It could reduce the Age Pension, or in the worst case, cancel the Age Pension if you are over these limits.

The pension will be canceled if total assets exceed the upper threshold limit of $556,500 for a single homeowner or $837,000 for a couple homeowner.

There are a number of strategies that can be applied in planning for a Centrelink entitlement reduction as a result of an inheritance receipt, the main two most people have used in the past are:

1	Gifting or transferring their entitlement to another person.
2	Retaining money in the deceased estate for a prolonged period.

The above strategies generally have limited impact and have limited benefit as Centrelink has rules on the amount you can gift. Amounts gifted above $10,000 per financial year and $30,000 over 5 financial years are considered as an asset and deemed to earn income for the next 5 years. Transferring your entitlement to another person is also considered a gift in the eyes of Centrelink.

Once the estate proceeds are able to be paid, Centrelink will look to assess your entitlement as an asset. Most people are not aware Centrelink can assess funds held in an estate and as such keeping funds in the estate for a prolonged period may not be a viable option.

One strategy that is effective is to spend on the things a lack of capital has previously made difficult. We often see clients complete renovations on their house, take their dream holiday or invest in assets that are either exempt or have limited Centrelink penalty.

The advice of a financial planner can help minimise the chances of Centrelink issuing the dreaded request for repayment of overpaid entitlements.

In keeping with our theme this quarter of planning today how you set up a will, and how you distribute an estate is an area we can help clients with.

We know discussing finances while grieving is draining and to talk about future events and possible strategies now is far better.

If you or any family member would like to discuss estate planning, Centrelink, or social security rules associated with inheritances do not hesitate to give us a call.

On the point of estate planning it is far more than simply making a will. Successful estate planning incorporates a range of disciplines and skills including financial planning, tax planning, and the skilful use of trusts and asset protection strategies, and needs to be considered in association with personal insurance, investment and superannuation strategies.

Generally we all have some idea what will happen with assets on death, but what about a mentally incapacity or total disability.

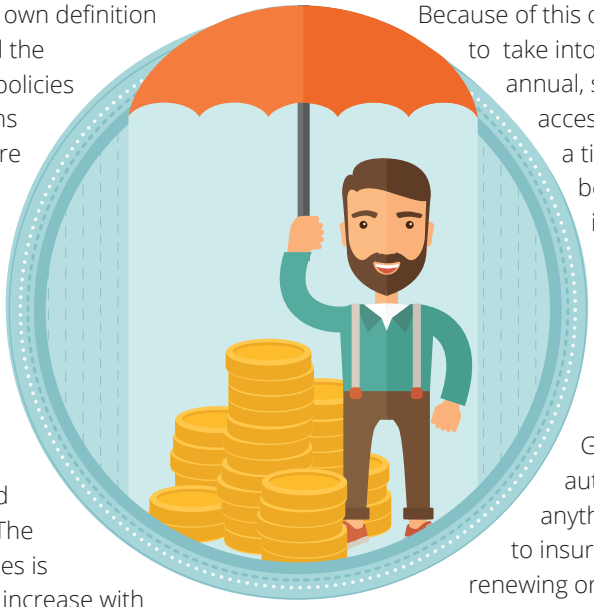
Effective estate planning involves orchestrating the estate to ensure that wealth is passed exactly the way that you intend to chosen beneficiaries, in the most financially-efficient and legitimately tax-effective way.

Some points to consider in that process include ensuring Investment and Superannuation strategies are structured correctly Personal risk insurances and asset protection are in place Age care funding and strategies are considered for partners Nomination of the beneficiaries of the estate are clear and updated to reflect changed circumstances over time. The Appointment of an Executor determining if there is a requirement for a Power of Attorney or a Testamentary trust.

PROTECTING INCOME WITH INSURANCE

We all insure our cars and our properties but not all self employed persons insure their income. Income protection insurance replaces the income lost through your inability to work due to injury or sickness. It is an important consideration for anyone who relies on an income. It is especially suitable for self-employed people, small business owners or professionals whose business relies heavily on their ability to work.

Each income protection policy has its own definition of disability and range of benefits and the financial adviser's role is to compare policies in regards to premium, benefits, claims handling, and policy wordings. They are not all the same in fact there can be major differences between what is covered and not covered between policies.



Most policies offer cover for up to 75% of your gross wages for a maximum time period between 2 years or up to age 65.

The longer the maximum claim period is the more expensive the premium. The premium for income protection policies is payable on a per year basis, and may increase with age, or stay level each year from the outset.

The premium that rises each year is called a stepped premium, and is generally a lot lower than the level premium at the outset, but rises each year as the risk increases to the insurer.

Level premiums do not increase, but are higher at the start, generally speaking it takes 7 years of insurance premiums to be paid before the stepped rate becomes more expensive than level rates.

If you do elect to take stepped premiums, later in your working life stepped rates can become very expensive.

The government supports insuring income, and most Income protection premiums are tax deductible.

You need to pick a waiting period when you select your level of cover. This is the period of time (often 30 to 90 days) before you can make a claim.

Income protection was not created to cover the common cold or flu but to provide protection of income for major illnesses or accidents that stop us being able to work and get paid an income.

Because of this one way to reduce premiums is to take into account your leave balances (e.g. annual, sick and long service leave) and access to emergency cash when choosing a time period from when you want to be covered. In most cases this period is 30 days, however we see many 90 day, and even 12 month waiting periods taken out , with these clients basically looking to self-insure the short term, but cover the long term unexpected event.

Getting approved by an insurer is not automatic. You need to tell your insurer anything that could affect their decision to insure you when you are applying for, renewing or changing a life insurance policy. You also need to tell the life insurer about things that have happened between the time you apply and when the insurance cover starts.

Some insurance companies need you to give them details of your medical history. If you don't have this information, you can get it from your doctor. The insurer may refuse your claim if you don't give them this information, and this could affect any life insurance you apply for in the future. The income protection payments you receive from a successful claim will be for the period you are unable to work, in line with the policy.

Income protection gives you a steady source of cash in case you get injured or sick and cannot work. This means you can focus on getting better and not on how you're going to pay the bills.

Need more information , give us a call , and we can do a review of all your insurance needs including review any existing policies you have or look to get some quotes on your behalf.

Health News: Fasting

It's odd to think that depriving yourself of a necessity for life might be one of the most powerful ways to transform your health.

An article in business insider on Facebook suggests there is more and more evidence for the idea that fasting could have powerful health benefits for both the body and brain.

There are many different forms of fasting, ranging from going extended periods without food to consistently eating less (perhaps cutting calorie intake by 20 per cent) to intermittent or periodic fasting.

But of all these different kinds of fasting, intermittent fasting is very likely the most popular and certainly the trendiest one.

Celebrities include Hugh Jackman, Tim Ferriss, and Beyonce.

In Silicon Valley, whole groups of self-optimisation-obsessed biohackers meet to collectively break their fast once a week, and executives at companies like Facebook say fasting has helped them lose weight and have more energy.

The hard part about classifying "intermittent fasting" is that there are a number of different forms of this kind of fast.

Intermittent-fasting ranges from allowing yourself to consume calories only within a certain span of the day, likely between six and 12 hours, to eating normally five days a week and dramatically cutting calories on two fasting days, to taking a 36-hour break from food every week.

Blood samples have shown that people who fast from 12 to 24 hours at a time enter a state called ketosis – when their bodies start to derive more energy from fat.

The different forms that these fasts take mean that much of the research showing benefits might be true for one of these fasts but not necessarily others. Yet there is good research on several of these fasts indicating that the benefits of intermittent fasting go beyond weight loss. According to the article there may be real long-term disease-fighting health improvements.

A recent study suggests that intermittent fasting can do more than help people lose weight - it also may improve blood pressure and help the body process fat.

For this small study, researchers had overweight participants either cut calories every day or eat normally five days a week and consume only 600 calories on their two fasting days.

Both groups were able to lose weight successfully, but those on what's known as the 5:2 diet did so slightly faster (though it's unclear if the diet would always help people lose weight faster). More significant, those from the intermittent-fasting group cleared fat from their system more quickly after a meal and experienced a 9 per cent drop in systolic blood pressure (the "regular diet" group had a slight increase in blood pressure).

Again, this was a small study, and researchers say participants had a hard time following the diet, but these are promising results.

Other studies indicate intermittent fasting could reduce risk for forms of cancer.

Other small studies on a similar 5:2 diet and on other intermittent-fasting diets have shown that this form of intermittent fasting is associated with physical changes that could lead to reduced cancer risk, particularly for breast cancer.

Much more research on this area is needed, but these are promising results, Mark Mattson, a neuroscientist at the National Institute on Ageing at the National Institutes of Health, previously told Business Insider.

There may be evolutionary reasons why depriving ourselves of food for some time makes us feel energetic and focused

"It makes sense that the brain needs to be functioning very well when an individual is in a fasted state because it's in that state that they have to figure out how to find food," Mattson told Business Insider. "They also have to be able to expend a lot of energy. Individuals whose brains were not functioning well while fasting would not be able to compete and thrive."

The more you enter this state, the better your body gets at using fat as fuel. For that reason, some people try to trigger ketosis with "keto" diets that involve consuming a lot of fat. But,

according to Mattson, fasting is a significantly more effective way of boosting ketone levels.

Intermittent fasting may also improve memory and mood.

Many people who fast intermittently say that at times they feel clearer and more focused while fasting.

There's real science to back up the idea that being "hungry" gives you a sense of focus. Entering ketosis triggers the release of a molecule called BDNF, which strengthens neurons and brain connections linked to learning and memory.

That's one of the reasons researchers have suggested that ketogenic diets (both the fasting kind and the fat-heavy kind) could be useful for people fighting degenerative brain diseases like Alzheimer's. That also could explain the clarity or focus some people feel after fasting. It may provide a mood boost as well.

Research indicates some forms of intermittent fasting may help with diabetes.

Both in mice and in people, there's evidence that certain forms of intermittent fasting can improve the body's response to sugar. In mice, researchers have basically been able to reboot the pancreas, which produces insulin, reversing diabetes with periods of fasting like the 5:2 diet.

In people, a form of fasting that involves 25 days of unrestricted eating followed by five days of eating a very restricted fasting diet seems to cause big improvements for those with high blood sugar.

Intermittent fasting works at least as well as other forms of dieting for weight loss.

No form of restricting food is necessarily easy, and people who get started with intermittent fasting for the first time agree that it's no picnic. On the one hand, it's nice to eat whatever your want when your diet isn't restricted – but it's also very hard to know you are still hours away from food when struck with a craving.

Yet research does indicate that intermittent fasting is at least as good as other forms of dieting for weight loss. That, plus the other health benefits, might make it a preferred candidate for many.

Certain forms of fasting are associated with anti-ageing health effects.

However, it's not clear whether intermittent fasting does this for humans.

Several forms of fasting have been associated with significantly improved lifespan and health span – the time an organism is healthy – in several studies.

This has mostly been demonstrated with caloric restriction in animals, which cuts the number of calories these animals are provided by between 20 per cent and 30 per cent. There's limited evidence that this may work for humans too.

But that sort of fast doesn't sound necessarily safe or pleasant.

Valter Longo, an anti-ageing researcher at the University of Southern California, has published research and written a book about a diet he's developed that he says provides the health and anti-ageing benefits of fasting while still letting people eat normally 25 days a month (the other five are pretty rough).

It's unclear whether intermittent fasting would trigger the same benefits, though it's possible.

More research is still needed on the different forms of intermittent fasting.

It's appealing to think that fasting might be an ancient survival mechanism that triggers healing processes in the body, as many fasting researchers suggest.

But that doesn't mean all forms of fasting are the same or that they have the same health effects. Many will vary from person to person, and you should always consult your doctor before trying any severe dietary changes.

In his new book, *The Longevity Diet*, Longo cautions against using the term "intermittent fasting" too broadly. We know various forms of fasts – like eating only during certain hours, restricting eating one or two days a week – are associated with health benefits. But we don't know that all these health benefits are the same for all fasts.

But even so, many of these intermittent-fasting regimens are considered relatively safe for a healthy person. So if they appeal, they could be worth a shot. And they may come with a host of health benefits.

This is not a recommendation to fast.

TAX-EFFECTIVE INVESTMENT BONDS

Most investors consider superannuation for long term tax-effective savings and despite all the changes over the years, maximising the superannuation rules is paramount in all client's retirement plans.

Both the Government and the Opposition are now targeting its concessions in this area and have placed limits on wealth creation and estate planning in superannuation.

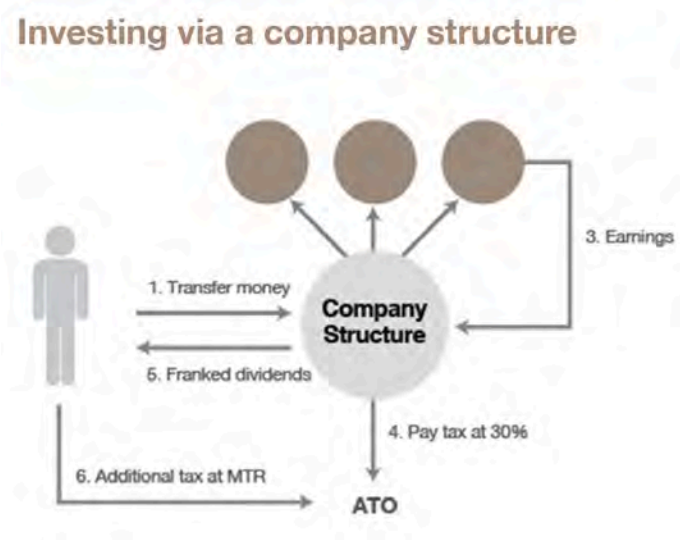
Investors who have made maximum contributions to super, or are over the cap are beginning to build additional wealth by investing in insurance bonds or company structures.

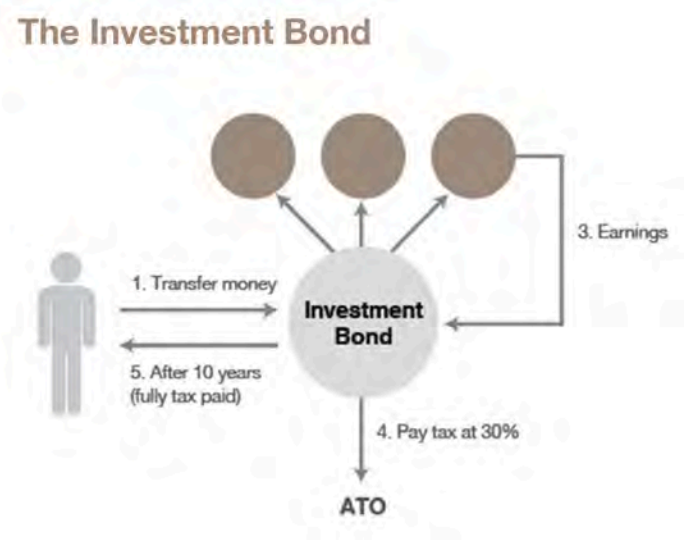
Company structures and investment bonds tax income at a maximum tax rate of 30% (currently). However, investment bonds have some unique features that in certain circumstances may give them an edge over company structures.

Company structures may suit high net wealth clients who are happy to set up a private company to hold investments. But this may only be a tax deferral mechanism, as eventually funds may need to be paid out of the company and personal tax becomes payable at the investor's marginal tax rate, less any franking credits (if an Australian tax resident).

Investment bonds offer an alternative long-term strategy given that personal tax relief becomes permanent after 10 years.

Let's take a closer look at how these two alternatives outside of superannuation compare and the benefits of each option.





Generally, individuals on higher marginal tax rates may seek tax-effective investments that achieve long term wealth creation over and above their superannuation, which is now limited by policy-driven contribution caps.

As an investment vehicle for tax-effective wealth creation, Investment Bonds are an alternative option to a Company Structure.

However, from a tax strategy point of view, there is a fundamental difference between these two options.

**Assuming the 125% rule on deposits is not broken and withdrawals are not made within the first 10 years.*

FUNDAMENTAL DIFFERENCES FROM A TAX STRATEGY PERSPECTIVE

INVESTING VIA A COMPANY STRUCTURE:

While earnings remain within the company:

- Company structures are usually a tax deferral mechanism, therefore are not a tax effective solution if they do not actually reduce the eventual tax.
- Earnings on the funds are currently taxed at the company rate of 30%, while the funds are held within the company. This also assumes the anti-avoidance 'personal services income' rules do not cause the use of a company structure to become invalid for tax purposes.

Upon withdrawal or distribution of earnings:

- When company profits are withdrawn, they are normally treated as a dividend payment, which must be included in the investor's assessable income.
- In the case of a private company, company profits can also be transferred to an individual as salary/wages, director's fees, or interest on any loans advanced to the company, etc. Such transferred amounts can be expected to be included in the investor's assessable income.
- Any distributed company profits are taxed at the investor's marginal tax rate, less any franking credits. Any tax offset for franking credits merely compensates for taxed company profits – so the value of franking credits should be regarded as merely avoiding double-taxation.
- Tax is only reduced (on distributed company profits) if the investor's marginal tax rate is lower in the tax year of withdrawal, than in previous years. Conversely, tax can be increased if the opposite were true.
- Also, tax is only reduced (on distributed company profits to an Australian tax resident) if the investor's marginal tax rate is lower than the company tax rate. Again, conversely, tax can be increased if the opposite were true.

Upon sale of investor's share interest:

- Lower tax can also be achieved, if the investor's share interest is sold for a capital gain (after holding that interest for at least 1 year) and if 50% of the 'discounted capital gain' became exempt from tax. However, unless no other income amounts were drawn from the company, any discounted capital gains tax would be additional to full tax at marginal rates on such other income drawn from the company – including dividends and undiscounted capital gains.
- Conversely, if the investor's share interest is sold for a capital loss, such a loss can only be offset against any current or future capital gains, and is not deductible against ordinary assessable income. If a capital loss is never offset, its tax benefit is lost permanently. Also, if a capital loss is offset under the discounted mechanism, its tax benefit is effectively halved.

Note: *Use of a private company structure also needs to recognise the tax pitfalls of Division 7A of the Income Tax Assessment Act 1936. Division 7A may apply to a private company that makes tax-free distributions to its shareholders or their associates in the form of payments, loans or debts forgiven.*

Tip: *Investing money via a company structure may only defer tax payable. The earnings are still taxable at the investor's marginal tax rate upon withdrawal. Tax is only reduced if the investor's marginal rate has fallen at that point.*

INVESTING INTO AN INVESTMENT BOND

Taxation within the first 10 years:

- During the period of investment, ongoing earnings are taxed within the bond, currently at 30%. They are not included as income of the investor and therefore do not increase the investor's taxable income, or attract (or increase) the investor's marginal tax rate.
- If the investment is held for at least 10 years, none of the withdrawn earnings will be included in the investor's assessable income.
- Thus, tax on investment earnings can be permanently capped at 30%, and never attract personal tax (or Medicare levy).
- With a few exceptions*, the earnings component of withdrawals within the first 10 years must be included in the investor's assessable income, however a 30% tax credit is then applied – to offset the impact of tax already paid in the bond.
- Only the net after-tax income received from the investment is taxable and is paid by Centuria from earnings of the

Portfolio, not by the investor. So, there is no notional gross-up of assessable income for the investor here (unlike a franked dividend on a company share investment).

**Exceptions to tax on withdrawals within the first 10 years*

- If a withdrawal is made in the 9th or 10th years, only a portion of the earnings is included in the investor's tax returns.
- If funds are withdrawn at any time (even within the first 10 years) due to special circumstances, such as death, disability or serious illness of the bond's nominated life insured (which can be the investor or another person), neither the investor nor the investor's estate will pay any further tax.
- Similarly, if funds are withdrawn at any time (even within the first 10 years) due to unforeseen serious financial difficulties affecting the investor, no further tax is payable by the investor.

Nominated beneficiary's taxation:

- A nominated beneficiary (who receives fund proceeds if the investor has died) will not be taxed.

As a long term strategy for tax-effective wealth creation, an investment bond may be an appropriate vehicle given there could be no personal tax obligations on reporting and payment by the investor.

Tip: *Investment bonds offer a tax-effective savings solution for middle to high income earners, especially if funds remain invested for at least 10 years. A real tax saving occurs if the investor's marginal tax rate is greater than the bond tax rate (of 30%) – as is the case with most working Australians on marginal tax rates of 34.5%, 39% and 49%. This can also apply to minors, who attract high tax rates (between 45% and 66%) on Division 6AA income above the small $416 tax-free threshold.*

Investment bonds can also provide a tax advantage when compared to a company structure as the bond tax offset (unlike imputation credits from franked dividends paid by a company) is not part of the gross-up tax rules – and required to be included in the investor's taxable income.

FEATURE	INVESTMENT BOND	INVESTING VIA STRUCTURE COMPANY
1 Entity Tax Rate		
Whether on income or capital gains	30%	30%
2 Personal Tax Rate		
When entity income is distributed on an on-going basis, such as dividends. When entity income is distributed upon a wind-up, effectively a final dividend.	No personal tax, if bond withdrawn (or part-withdrawn) after 10 years ... or if withdrawn anytime due to: – Death or disability of life insured – Unforeseen serious financial difficulties of bond investor. 30% tax rate cap remains.	30% replaced by personal tax at marginal tax rate (via operation of dividend imputation system). In effect, the 30% company tax rate is only temporary (or provisional).
3 Personal Tax Rate		
On Capital Gains (only applicable when an individual's investment is disposed of)	Bond income is treated as ordinary income. No capital gains tax [CGT] reporting or compliance required.	Effective 50% tax reduction applies to discounted capital gains (on shares held for more than a year). Capital gains tax reporting or compliance required.
4 Investment Transfers		
On Capital Gains (only applicable when an individual's investment is disposed of)	Bond assignment can be seamlessly made. Retains original start date. No personal tax event for transferor, if assignment is for nil consideration.	A share ownership transfer creates a CGT event, with personal tax consequences.
5 Bankruptcy Protection		
	Full protection from creditors, if nominated life insured is either the bond investor or investor's spouse. Full protection from creditors, if nominated life insured is either the bond investor or investor's spouse. Protection extends also to future bond payout monies.	No protection from creditors
6 Nomination of Beneficiaries		
	If there is no separate life insured (to the investor), specific bond beneficiaries can be nominated, outside a Will – and may also be better quarantined from any Will contests.	Company share investment generally falls to be with part of a person's estate, and dealt with in terms of a Will (if one exists).
7 Investment Life after Death		
	If the life insured survives the bond investor, a bond can continue – and be held as an asset of the estate.	Generally no, as share investment has to be transferred (via the estate).

FINANCE
NEWS NETWORK

News Categories · Funds Management · Commentary · Media Releases · Investor Events

We are finding that a lot of our clients are enjoying the membership of this on live TV.

The Finance News Network is one of the largest providers of online finance video news in Australia.

The online media business specialises in finance and business video news including up to date market reports, economist interviews, real estate news, stock reports and the latest on superannuation.

The media network was established in 2006 and is located in the heart of Sydney CBD at our licensee's head office.
The network regularly interviews CEOs and industry experts who enrich the programs with their invaluable market commentary and experience.
Our Financial planning licensee InterPrac Financial Planning is owned by the same parent company that is the majority owner of this media business.
Membership to the website is free, and the information can be viewed via video stream on the Internet and through mobile phone networks.
If you would like to enrol, you can do so by taking a look at the website at **www.fnn.com.au**
We hope you find the information helpful.

There is large range of commercial finance solutions from a variety of lenders, we can help find you the right finance option on purchases such as:

- Personal vehicles, boats and motorcycles
- Commercial vehicles, utilities and trucks
- Plant and equipment
- Shopfront or factory fit outs and refurbishments
- Commercial property purchases

With June 30 just around the corner there is a number of tax effective ways to use finance most lenders won't tell you about unless you specifically ask.