

# AJML UPDATE – July 2007

## Smart ways to build wealth.

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According to the Australian Bureau of Statistics (ABS), in Australia today, only approximately 4% of the population becomes what we call 'Financially Independent' which means that at age 65 they are able to stop working and continue to live a comfortable lifestyle. It does not mean they are rich. It just means they have enough money coming in to support them, usually around \$42,000 per annum.

Approximately 1% of the population at 65 will become what we call 'rich' as having net worth in excess of \$1 million dollars. A million dollars used to be a lot of money years ago, but by today's standards, it is not that much. In the future, most people will become millionaires just by paying their house off over 20 or 30 years.

Beside strong determination, focused mindset and positive attitude, there are basically three pillars for creating continued income. These include businesses, properties and shares. The BRW 200 rich list (a list of the 200 richest Australian individuals) provides how Australia's millionaires have built their wealth over time.

You need to set goals, be very determined, have significant financial leverage, and execute professional strategies with excellent resources such as professional advisers.

This update provides six basic steps that will help you understand how you can improve your financial position.

### Ways to improve your financial position

**Step 1 – Savings**, "all great investors are great savers". Every dollar saved is a dollar earned.

*Do you what interest rate you are paying on your mortgage?*

*Do you know what fees you are paying on your superannuation account?*

#### Savings – On Your Mortgage

*Saving is not only achieved by saving money from your income. Savings can be achieved by ensuring you are not paying higher interest than you should be paying on your mortgage. Paying an extra 0.3% interest or more can result in paying extra thousands of dollars in interest on a 25 or 30 year loan.*

#### Savings – On Your Superannuation

*Do you know what fees you are paying on your existing superannuation fund(s)?*

*Quite often individuals pay high fees (such as contribution fees) on their superannuation funds without even knowing it.*

*As an example, if you are paying contribution fees of 5% (excluding management fees) and you make total*

*contributions of \$400,000 into your superannuation account throughout your working life, you would incur unnecessary contribution fees of \$20,000. This means that you will have \$20,000 less in retirement plus the compounding effect which could potentially add to two or three times this amount.*

*Therefore, it is important to ensure that you understand what fees you are currently paying on your existing superannuation fund.*

**Step 2 – Sell assets that are not generating any income or capital growth and invest the proceeds in a tax effective manner.**

**Step 3 – Tax**, many people are paying large amounts of tax. Unfortunately people who fit into this category are the majority hard working middle class Australians.

*You could use negative gearing to reduce your tax payable. Negative gearing is when you borrow to invest in shares or property, and the income generated from the investment is less than the interest repayments.*

*This will reduce your taxable income and as a result you will get a tax refund from Australian Tax Office for the interest paid on the investment loan which will partly pay for the investment.*

*In other words, your tax money will partly pay for your investments. For example if you have an investment property, you may not be aware that you can have your tax benefits contributed weekly, rather than wait for a refund cheque at the end of the*

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*year, immediately improving your cashflow and take home pay.*

*There are other ways to minimize your tax, for example, start a consulting, contracting or outsourcing business. Companies are taxed after their expenses at a maximum rate of 30%, and accumulate imputation credits every time tax is paid, but, individuals are taxed at a maximum rate of 46.5%.*

**Step 4** – *Income, develop skills to increase your income and worth by choosing the investments appropriate for your individual circumstances and needs.*

**Step 5** – *Equity, many people have equity in their homes. Equity being a portion your house that you actually own. Much of that equity could be put to good use, creating wealth and potentially optimize your tax position.*

**Step 6** – *Superannuation, the recent Superannuation reforms have been extremely positive for Australians. Superannuation encourages investors to save, plan for the future and is one environment which has most tax benefits. There are many tax effective strategies available within superannuation that can greatly increase your retirement benefits while potentially reducing tax payable in your working life.*

With professional advice and careful planning, you too could become financially independent. At AJML Group, we offer forward thinking solutions with our Business Performance Report and Business Strategies Report. We also offer bookkeeping, company secretary, accounting

and taxation to reduce client's administrative burden. Our mission is to assist you to improve your current financial position and increase your net-worth for long term purpose.

## **Financial Planning & Mortgage Finance Services**

As you might be aware, through our Strategic Alliance Program, you could also contact us or the professionals below regarding financial planning, superannuation & insurance (**Daniel - 0415 488 826**); mortgage financing (**Stewart - 0418 865 056**).

As the 2007 tax season has already started, we will update our clients with some of the recent changes and hopefully it will help you further with compliance and planning for the new financial year.

## **Individuals**

- From 1 July 2007, the 30% personal tax rate threshold will increase from \$25,001 to \$30,001 and the low income tax offset will increase from \$600 to \$750 and will begin to phase out from \$30,000. Taxpayers will not pay tax until their annual income exceeds \$11,000 (up from \$10,000)
- As a result of the tax threshold changes announced in the 2007-08 Budget, with effect from 1 July 2007, senior Australians who receive the senior Australians tax offset will be able to earn more income without paying tax. Singles will be able to have taxable income up to

\$25,867 (up from \$24,867) and couples up to \$43,360 (up from current \$41,360).

## **Small Businesses**

- From 1 July 2007, the annual turnover threshold for registration for the GST will be increased to \$75,000.
- Businesses only need to meet one threshold of less than \$2 million turnover to access a range of tax concessions.
- The simplified tax system (STS) as a separate 'system' ceases from the 2007-08 income year, although the concessions are still available to businesses with less than \$2 million turnover.
- Small businesses with a turnover of less than \$2 million a year can access CGT concessions without satisfying the net assets threshold.

## **Superannuation**

- The Treasurer announced that the Government will pay a one-off additional co contribution into the superannuation accounts of those persons who made eligible contributions in the 2005-06 income year. This payment will double the co contribution paid in respect of that year, i.e. from a maximum of \$1,500 to \$3,000.

*To avoid delays and potential penalties in late lodgment of your tax returns, please organize your information early.*

*Please feel free to contact us with any queries regarding this update.*

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