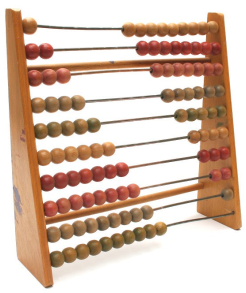
Welcome to our latest e-newsletter.
This is our last e-newsletter for the year. In this issue we round out our analysis of business structuring with an example of how much tax you can save with the right structure in place. We also profile one of our clients who has recently had their success formally recognised with a couple of awards.

In this edition...

Getting your structure right - minimising your tax



It's all very well knowing what business structures are available and the pros and cons of each. But that's all theory. At the end of the day, the question most people want answered is "how much tax will it save me?" While the answer will be different in every case, the bottom line is that the right structure can save you a lot. So let's crunch some numbers. We'll look at an example using the same amount of income over a range of different structures and compare the tax payable.

<u>Comparing tax payable</u>

Let's say you have a business that has made $200,000 profit for the year. How much tax would you pay in each scenario if this was your only source of income (keeping things simple)?

Sole trader

All tax is paid at your personal marginal rates, which we detailed in an earlier issue.

- **Tax Payable = $66,547 (including Medicare levy)**.

Partnership

Let's assume there are two people in the partnership who split income 50-50. Including Medicare, you'd pay **$26,447 - but you personally have earned half as much**. If the partnership has earned $200,000 then your share is only $100,000, which is why the tax is lower. If the partnership earns say $400,000 (because there are two of you working in it), then your share of the profit is $200,000 and you pay the same tax as you would as a sole trader.

It's different of course if the partners are related. If your 'partner' is your spouse and the partnership has earned a total of $200,000, you can each take advantage of the lower rates of tax by splitting the income - $100,000 each. The total income to your family is $200,000 as for a sole trader, but you pay less tax overall on the same amount of income.

- **Tax Payable = $52,894 (including Medicare levy - best case scenario, assuming you and your spouse/life partner are in business together)**

Company

The tax payable in a company is very easy to calculate. Companies pay a flat tax rate of 30%. While that seems like less now, there's no money in your pocket yet - it's all still in the company. Any time you want to get money out for personal purposes, you do so by way of a dividend or salary. When you do, you will pay tax on that money at your marginal rates. **So ultimately, the tax you pay could end up around the same**. If you and your spouse or partner are both shareholders though, you can pay dividends (which is a distribution of profits earned by the company to those that own it - the shareholders) and may be able to effectively split the income as you did in the partnership above. Also, there are circumstances where you can sometimes put more away into superannuation from a company, and that will only be taxed at 15% up to certain limits.

- **Tax Payable = $60,000 (for now, but profit remains in the company)**

Trust

This is a tricky one because it depends entirely on each person's circumstances. There are as many different examples and calculations as there are trusts! But let's consider one scenario for illustrative purposes. Suppose you and your partner work exclusively in the business and derive all of your income from it (perhaps a little unrealistic, but nice and simple for our purposes). And then let's say you have two children, one who is aged 18 but still at university with no other income, and one aged 16 with no other income. And finally, let's say you are also involved in a church or club that you usually contribute $5,000 a year towards. So let's split up your $200,000 profit as follows:

- $80,000 to you - tax payable (including Medicare) = **$18,747**
- $77,584 to your partner - tax payable (including Medicare) = **$17,930**
- $37,000 to your 18 year old child - tax payable (including Medicare) = **$4,127**
- $416 to your 16 year old child (the maximum allowed for minors) - tax payable = **$NIL**
- $5,000 to your church or club - tax payable = **$NIL**

- **Tax Payable = $40,804.**

That's a saving of $25,743 on the same profit, making it well worth the additional cost of maintenance.

It's worth noting that in this example, you're not making a new contribution to the church or club in order to save tax. We're assuming that you make that donation already. Moving it into your trust saves you money by shifting it from after-tax income to before-tax income. Effectively, if your trust deed permits, you get tax deductibility for a donation that would not usually be tax deductible.

Personal Services Income (PSI)

There's a significant condition to all of this, and that is what is known as the 'Personal Services Income' (PSI) limitation. It's probably too much of a distraction to go into it in detail here, but we need to at least touch on it because it may play a part. If you derive all of your income from your own provision of personal services (e.g. an accountant) rather than having a business that itself produces income for you (e.g. income-generating employees, manufacturing equipment, etc.) then the Tax Office will effectively strip away any structure you might have and tax all the income in your name. The argument is that the structure is just a front for paying less tax. It is far more complicated than that and there are ways you can structure yourself to reduce the impact of this. In addition, it doesn't apply to service businesses that earn income in their own right. What does that mean? By way of example, let's say you are a bookkeeper. As soon as you employ a second bookkeeper to help you, that person is employed by, and generates income for, the business. Thus, you have a business that operates independently of you (or at least is not operated entirely by you), and thus the PSI limitation is not applicable. It only applies where, without the structure, it would just be you delivering a service on your own.

Conclusion

As your business structures become more complicated, it will cost you more in accounting fees and statutory costs to maintain them. But the tax savings may be significant enough to justify it. You can save far in excess of the associated costs, and also ensure that you have a business that is robust. You'll also end up protecting your own personal assets. In the end, this is where good advice makes all the difference.

If you're still unsure, don't worry too much. This is what we do. Ultimately in business, it's not about knowing everything, but rather doing what you do best and surrounding yourself with people who can do the rest.

If you'd like to discuss your circumstances with us further, please contact us **for a complimentary consultation.**

LeetGeek wins CRN Fast 50

We love to see our clients succeeding in business. It's even better when their achievements are formally recognised.

LeetGeek, a local provider of IT technology and services, was recently announced as the winner of the CRN Fast 50 for 2012. This is a national award that recognises "Australia's savviest IT resellers" based on tangible, performance based criteria rather than arbitrary judging processes. In effect, this means that winners of the CRN Fast 50 are "unequivocally the best at what they do".

Not content to rest on their laurels, LeetGeek has also finished third in the In-Business Magazine's SA Fast Movers

Merry Christmas

The team at Dewings would like to wish you and your family a merry Christmas and a safe and prosperous New Year. We also want to thank you for the opportunity to work with you. We know there are many choices available for all kinds of business services, and we're grateful that you have chosen us for your tax and business advisory needs. We look forward to continuing to work with you in the coming months and years.

Office hours

As is our custom, we will be closing the office for the period between Christmas and New Year's. This year that means **our office will be closed from 1:00pm on Friday, 21st December and will** for 2012.

Congratulations to Richard, Ben and the rest of the team at LeetGeek, and thanks for choosing us to work with you. We're so impressed by the team at LeetGeek that we've put our own IT strategic direction in their hands!

reopen on Wednesday 2nd January 2013.

During this time you can still call the office and leave a voicemail, and we'll arrange for someone to return your call as soon as possible. Or feel free to send us an email or fax, which we'll be checking regularly. In addition, you can leave any documents for us in the locked drop box on the western wall next to reception.

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For further advice or information please contact us. Whilst this newsletter is issued as a guide, no responsibility is accepted by Dewings for loss by any person acting or refraining from acting on the material provided. The information enclosed should not be substituted for professional advice.