AUSTRALIAN MEDICAL BENCHMARKS

Bringing your **financial future into focus**

Your super checklist **pre 30 June 2017.**

MAY 2017

The year is certainly flying by! With the end of financial year fast approaching, it is important now more than ever to consider your overall practice, tax and super strategies.

In this issue you will find checklists, tips and strategies to prepare you for 30 June 2017, helping you to make the most effective decisions for your financial situation.

We have prepared this edition before the Federal Budget has been released, however in our next edition we will interpret the changes and outline the ways they will affect you as a medical practitioner.

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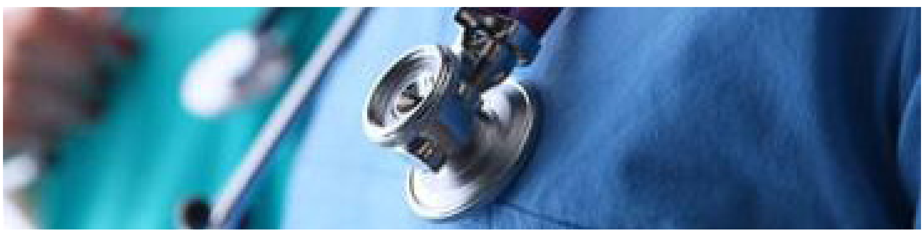
PARTNER

One of the biggest changes proposed by the Government to be carried out from 1 July 2017 is to implement a measure limiting the amount members can ‘transfer’ from their balance into pension phase.

This measure will be implemented in the attempt to reduce the level of assets in pension phase that are currently enjoying a tax free treatment.

With this in mind, we have provided you with a ‘pre 30 June checklist’ to help you prepare before the end of financial year arrives!

- **Maximise Non Concessional Contributions (NCC) for you and your spouse, allowing you to contribute up to $1,080,000.**
- **Maximise your Concessional Contributions (under 50- $30,000, over 50- $35,000).**
- **If you’re under age 60, consider stopping your Transition to Retirement (TTR) Pension by 30 June.**
- **Ensure your Small Business Capital Gains Tax (SBCGT) Retirement exemption payments are paid by lodgement of your Income Tax Return (ITR).**
- **Super is still Australia’s only Tax Haven with 15% income tax or zero in Pension Phase. Use it to your advantage!**



Supercharge your SMSF – **the power of leverage**

You may be aware that there have been some significant changes to superannuation lately – initially announced in the May 2016 Federal Budget and further modified in both September 2016 and November 2016.

Three of the biggest changes (amongst others) that will significantly affect your retirement plan are the reduction in the concessional contribution limit to $25,000 per annum, reduction in the non-concessional contributions limit to $100,000 per annum and the introduction of the $1.6 million Transfer Balance Cap (TBC). These changes start 1 July 2017.

This effectively means that you can contribute less into superannuation each year and the amount that can be considered "tax free" in retirement is limited to $1.6 million. You could say that the government has effectively set a savings target for us.

So, how close will you get to the target? Consider the typical case of a 30 year old Doctor with approximately $50,000 in superannuation. If they start contributing $25,000 each year and continue to do so until age 60, their balance is likely to be around $1.4 million (based on an estimated net earnings rate of 4%).

While this may only fall just short of the target, the point to take home is that you need to start thinking about your superannuation and retirement sooner rather than later.

Start contributing early and regularly, and take advantage of the compounding effect of having the fund's earnings taxed at 15%. You should also consider other strategies and investment options.

Another possible strategy to supercharge your superannuation balance is to purchase your practice premises (property) through your Self Managed Superannuation Fund (SMSF) and possibly borrow.

What are the benefits?

- From the Superfund's perspective, this could be a good commercial investment for your retirement. Ideally, the property will be rented to a good tenant who always pays their rent on time and at a good market rate.
- You can use the existing savings in the fund to cover the cost of the deposit and stamp duty.
- The rent income is only taxed at 15% and does not count towards your $25,000 contributions cap.
- Your additional $25,000 contributions combined with the rent payments can help eliminate the mortgage quicker and tax effectively. You will end up with approximately 67% more cash (after tax) to pay off the debt (refer to Fig 2. below).

When you have unlocked your superannuation in retirement, any earnings in the fund are effectively tax free, which includes profits made on the sale of investments including property. Due to the complexity, there are many boxes to tick when implementing this strategy.

Whilst the rewards are great, you need the right advice from the very start and time to consider whether or not the strategy is right for you.

Fig 1. Superannuation Balance

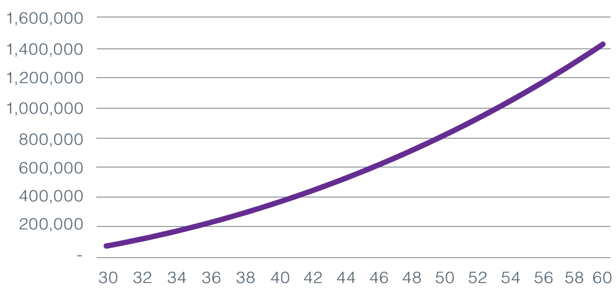


Fig 2. Borrowing within super vs borrowing outside of super

	SUPER	NOT SUPER
Contributions	25,000	25,000
Rent	50,000	50,000
Total Income	**75,000**	**75,000**
Tax Rate	15%	49%
Tax	(11,250)	(36,000)
Cash for Debt Reduction	**63,750**	**38,250**

How to maximise your **practice value for sale**

We all dream of the day we retire, when we can finally relax, unwind and reap the benefits of all our hard work. When it comes to retirement, it's not a decision that's made lightly. Usually it is not spur of the moment and comes after many years of deliberation and discussion with your nearest and dearest.

The aim for all Doctors in private practice is to find a suitable buyer to take over your practice; preferably one who will not only take good care of your patients and staff, but who will also pay you a reasonable price for your practice.

Like any rash decision, a practice that has to be sold quickly might struggle to achieve the best price.

A recent situation that we have seen unravel involved an older solo Doctor practice, who was nearing retirement and had been operating from the same rooms for the last 3 decades.

The Doctor experienced an unforeseen circumstance which led to the sudden need to find a Doctor to take over, however the practice was not in the best shape and no willing buyer was found. The practice had to close, which made things very difficult for the Doctor, staff and patients.

It is important in the lead up to retirement to use the time productively, allowing you to improve various factors, making the practice more appealing to a buyer.

The most obvious way to maximise your practice value is to increase profit. However, don't overlook the value that non-financial aspects can make as well.

Some factors to include in your path to practice value maximisation:

Structure

An ideal structure could facilitate an easier introduction for new Doctors, allowing them to gradually buy into the practice as you slowly sell out your share.

In the event you have more than one interested party who wanted to jointly own the practice (i.e. younger Doctors progressing through the practice), this would make the process easier.

Subleases

In the instance you are generating passive income, you can use this to your advantage in order to boost your practice value. This is possible because there is reliable income being generated by someone other than the owner Doctor(s). Subleases and rental arrangements are common within practices.

For example, a specialist Doctor may rent space within a GP surgery on a regular basis, or Pathology could sublet space permanently. These extra facilities are great for increasing the presence of your practice in the local area, all of which add value.

Contracts with non-owner Doctors

Non-owner Doctors operating within a practice will help to add value by raising revenue beyond just that of the owner Doctor(s).

Having these additional Doctors on signed service fee agreements (rather than just a gentleman's agreement or a handshake deal) will offer more confidence to a new buyer as it represents commitment to the practice.

Contracts with staff

Having critical staff on employment contracts offers security to a new buyer. The value of retaining good staff cannot be underestimated, having had countless years of experience with the systems, patients and procedures, holding valuable tacit knowledge.

Building Ownership

If you wish to sell your building along with the practice, consider having a building valuation prepared, making the process more efficient. This way any potential buyers will be aware of the price range for the building from the get go.

If you are the current owner but not quite ready to sell yet, offer a long term lease, giving security to a new buyer with a 'first right of refusal' option to buy the rooms in the future. If you are not the owner, already having a long term lease negotiated and locked in will offer the new buyer security to build their future at the surgery.

Surgery equipment and fit-out

It is important to ensure your practice feels fresh and appealing to a new buyer. A practice that looks run down and dilapidated, with out of date IT support and medical equipment could turn a buyer away.

Ensure that you have refreshed critical equipment and items that can improve functionality in order to add value to the practice's balance sheet.

Employed Doctors – tax deduction checklist

30 June 2017 is not that far away. It's time to start searching for those tax-deductible receipts and booking in a meeting with your accountant!

1. Motor vehicle expenses

You may find yourself constantly driving between meetings, conferences, hospitals or patients. Did you know that these trips are deductible?

You only need to maintain a log book for 12 weeks which will then cover you for 5 years, allowing you to claim the business portion of your motor vehicle expenses. Alternatively, you can claim 66c for every business related kilometre you travel up to 5,000km.

2. Expanding your knowledge

It is important, especially in the medical profession, to learn new skills and increase your industry knowledge which can be achieved by attending conferences, courses or completing post graduate degrees. The associated costs for these are deductible, including travel, accommodation and meals!

3. Smartphone expenses

Smartphones are becoming a prominent tool when tending to work related duties or phone calls. If you can relate to this, then telephone and internet expenses could be deductible!

4. Professional memberships

Doctors must often become part of associations and maintain professional memberships. Think of all the memberships and registration fees you may incur every year.

5. Additional work hours

Doctors often put in long hours, whether it be for work or study. Did you know that you are also able to claim those hours worked in your home office at 45c per hour?

6. Salary packaging

Maximising your tax position is not only about increasing your deductions. Let's consider the other option of decreasing your earnings without actually decreasing income.

7. Investments

If you are considering the purchase of a rental property, keep in mind that you are able to claim interest paid on any loans taken out to purchase the property.

Also consider obtaining a tax depreciation and building write-off report which could potentially allow you to claim back thousands in the long term.

8. Record keeping

Lastly, without the proof there may be no claim. It is important to keep proper records, not just the old-school method of keeping receipts in a shoe box.

Two great software solutions that we recommend to our clients are Xero and Dropbox. Technology is a wonderful thing that should be embraced.

Our commitment – to your education

We are continually striving to keep you updated with the latest industry specific information through our educational seminars.

This year we are educating medical professionals at the following seminars and events:

- Self Managed Superannuation & Investment Seminar
- AMA Medical Careers Expo
- Take The Fear Out Of Finance (AAPM)
- Starting and Working in Private Practice Workshops
- Ophthalmology Business Expo (ASO)
- Setting Up in Private Practice (ASA)
- Buying or Joining a Practice

To remain up to date, visit our website **cutcher.com.au** for more details.