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# PropertyInvesting.com 'Insider'

## Discover proven tips, strategies and techniques to dramatically increase your property investing profits

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Hi,

Welcome to your April edition of Insider. The topics on offer this month are:

- Why it's not smart to use a company when investing in property
- Finally! How you can protect your assets and save tax at the same time!

Grab a coffee and let's get started...

### Why It's Not Smart To Use A Company When Investing In Property

With only two months until the end of the Australian 2004/2005 income tax year, expect to start seeing the latest round of harebrained schemes promising amazing new ways of lowering your income tax bill.

Accordingly, it would be very wise to adopt a sceptical approach to any tax effective opportunity that involves agricultural products (such as olives, blue gums etc.) or so-called offshore tax havens where companies can launder their profits and then send clean funds back to Australia.

The truth of the matter is that any scheme that has the purpose of avoiding tax will be knocked on the head by the Australia Taxation Office ('ATO'), meaning those involved can expect to be left with a nasty tax bill that includes substantial penalties.

Honestly, I can't see the sense in trying to rip off the system when it provides significant flexibilities. Investors would be far better off spending their time learning the system rather than trying to be aggressive about pushing the boundaries.

This being the case, let's look at one way the system can work in your favour, and also a lesser-known issue about holding appreciating assets in a company structure.

**1. The Capital Gains Tax ('CGT') Discount**

While there's not normally a whole lot to be happy about when it comes to taxation in Australia... the CGT discount is certainly an exception.

In short, the taxation system allows certain property investors to legally halve the taxable value of their capital gain - and given the recent property boom, this may result in a saving of tens of thousands of dollars of income tax!

The savvy investors that I know all agree that the CGT discount is quite an extraordinary incentive; it's like the governments having a 50% off sale on capital gains tax. Post 1985, no one can remember a more advantageous time in which to tax-effectively realise their gains.

Sadly though, unlike the professionals, many mum and dad investors have failed to grasp the opportunity before them. Instead they remain stuck on the 'I don't want to pay tax' level rather than asking 'how can I maximise my returns while also paying the least amount of tax possible?'

Pinpointing the right time to sell was one of the topics I covered at the MasterClass last weekend when I focussed on the need for investors to master the three phases of investing: buying, managing and selling.

My experience is that these three phases are like a pyramid that can summarise an investor's sophistication. For example, most investors congregate on the 'buy' phase which is located at the bottom or broadest base of the pyramid.

However, more savvy investors, of which there are fewer, know that acquiring a property is only the beginning of the investing process and that returns can be maximised by properly managing the asset. Examples of increased investing skill include:

1. Looking for ways to increase the rent rather than just continuing with the amount collected at the time of buying; and
2. Rather than doing the minimum maintenance possible, looking for ways to add value to the property in order to increase profitability.

Finally, the top of the pyramid represents the few investors who know that selling assets is critical to fund sustainable growth as it allows profits to be recycled in a tax advantageous way (i.e. benefiting from the 50% off sale), for greater borrowings (i.e. as equity profits are converted to cash and flow through to the tax return thereby allowing greater borrowings) and to limit risk (i.e. having a too-focused growth strategy in an uncertain market).

The critical point to note here is that the property market has unquestionably changed, meaning that previous inefficiencies that were hidden by booming prices will now be far more obvious.

One questionable practice that will attract increasing attention is the use of equity redraws to fund growth. This was great while prices kept rising but will be a disaster as values fall. On the other hand, those who took advantage and cashed up will enjoy both increased buying power while also benefiting from the flexibility offered by the tax system.

The last comment I'd like to make on this issue is the potential redistribution of wealth that will happen should the government change the 50% CGT discount. If this was to occur (and I haven't heard anything to say it will in the near future) then there will be a redistribution of wealth away from those who held rather than sold.

Confused? Think of it this way... if the government changed the rules so that the CGT discount was only 25%, then someone who sold will benefit from more after-tax cash than the person who held. The truth is you can only invest in the current climate, which is why I believe it is wise to shop while the sale lasts.

**2. Using a company in which to accumulate wealth**

The two main considerations that need to be satisfied to qualify for the CGT discount are:

1. The asset needs to be held for more than 12 months, and
2. The capital gain must flow through to an individual.

Applying these points, a company will not be eligible for the capital gains tax discount and as such will pay a flat 30% income tax on the total capital gain realised.

The lack of access to the CGT discount is the prime reason why accountants make it a rule to avoid placing appreciating assets within a company structure.

So, when would you use a company then? Well, if you were a trading business entity then a company could, on the face of it, be appropriate as most of the income would be of a non-capital nature (i.e. sales, commissions etc.) and as such the asset protection benefits would outweigh the potential tax planning limitations.

The major asset protection benefits I mention relate to being able to separate personal and business assets, as this is a key necessity in order to properly protect your wealth.

Overall then, property investors envisaging making significant profits via capital appreciation would be well advised to carefully think about the way they structure their wealth as there are major asset protection and tax consequences to the choices made.

If you are currently buying investment property in the name of a company then you'd be well advised to see your accountant as soon as possible to discuss the worth of adopting a different approach.

**Finally! How you can protect your assets and save tax at the same time!**

If you're looking for a straightforward yet detailed and comprehensive guide to help you protect your assets while also legally minimising your income tax bill then you'll be delighted to learn that PropertyInvesting.com will soon be re-releasing a much anticipated product!

WealthGuardian was one of or top selling resources, however, about six months ago we took it out of production on the basis that it needed updating after changes to the tax rules and rates.

Well, update it we have as it is now an incredible 180+ pages of fantastic information and insights designed to assist you to gain a better understanding of how to protect and keep as much of your wealth as possible.

In short, you'll benefit tremendously from WealthGuardian if:

- **You currently own (or are thinking about buying) investment property in your own name, as this approach carries with it substantial asset protection risks and is also the least tax effective structuring option.**
- You want to know more about partnerships and whether or not they're a good option to use when investing or running a business.
- **You want to discover the ins and outs of using a company, including how to set up the directors correctly so as to nominate the risk individual.**
- You're looking for a very thorough yet down to earth discussion on how you can use trusts to achieve the grand aim of controlling rather than owning your wealth.
- **You want to know more about New Zealand entities, including how NZ profits are taxed here in Australia. WealthGuardian contains a dedicated chapter on this hot topic.**
- You're interested in maximising your rental property deductions, including the pros and cons of depreciation and capital works deductions.
- **Much, much more.**

To provide you with some idea of just how useful WealthGuardian is, when Bernadette (from my office) - who is a trained CPA and has many years of business experience - proofread the notes she said:

> "This is a great resource - perfect for those who want to understand structuring rather than blindly following what their accountant tells them. I'm a qualified accountant and I gained many new insights, so much so that I'm intending to buy my own copy!"
>
> **- BPV (CPA)**

So, you're probably wondering how much? Well, I've set the recommended retail price for WealthGuardian at $399 (GST inc), as at this price I feel it is excellent value for money! As an ex-practising accountant, I can confidently tell you that you'd easily spend $1,500+ on the same information if you wanted your accountant to sit down with you one-on-one.

The good news is that, if you're quick to act, I'm able to slash a substantial $100 off the RRP under a pre-launch special. There are two conditions though:

1. The stock will be shipped in mid-May, and
2. This offer is **only guaranteed to be available for the first 100 orders**

Of course, your purchase is covered by the usual no-risk money back 14-day guarantee (that begins from the date you receive the stock). This means you can buy now at the low price and should you not be completely satisfied with your purchase then just send the product back for a full (ex-postage) refund.

In summary then, at just $299 (+ P&H), I'm certain you'll find WealthGuardian to be a truly fantastic resource. I should warn you though - it's not a light and fluffy read... it's a comprehensive and detailed investor training resource.

To order you can either:

1. Buy online now using our secure online server by visiting **http://www.propertyinvesting.com/sima/click.php?id=64**, or
2. Call 1800 660 630 (however a $10 manual order charge exists)

I urge you to call quickly as last month's offer for cheap tickets to the PPPW sold out in a matter of hours and I expect the same to happen here!

## Summary

The topic of structuring is very important, yet for many it falls into the 'too hard' basket. However, the way you choose to own and control your wealth has a huge impact on your ability to achieve your investment goals as the norm (i.e. buying in your own name) is often a very poor option.

I would encourage you in the strongest possible terms to avoid blindly following your accountant's advice without first properly understanding the consequences, as that would be like having surgery without being aware of the chance of serious complications.

For example, I have no doubt that the majority of subscribers to this newsletter would not be taking advantage of the flexibility of the Australian taxation system and as such are inadvertently paying too much tax. It's not your accountant's fault as they don't know what you don't tell them. That's why a resource such as WealthGuardian is such a practical and useful tool as it will help you to identify the issues that you need to bring to your accountant's attention.

For example, with still two months to go until tax year end, there's still enough time to implement several tax planning strategies, such as looking at ways to benefit from the CGT discount, together with maximising your available deductions.

You could do a lot worse than investing in WealthGuardian as a way of cost-effectively educating yourself. There simply is not another resource or text book like it anywhere in the market which is why I believe it will grow legs and walk out of the warehouse at just $299 (+P&H). Don't miss out on this incredible pre-launch special... order online now at **http://www.propertyinvesting.com/sima/click.php?id=64** or by calling 1800 660 630.

Well, that's it for this edition of Insider. I sincerely hope you've been able to profit from the insights outlined in this resource. Until next month remember - success comes from doing things differently!

Sincerely,

Steve McKnight

P.S. Don't forget that the pre-launch offer can **only be guaranteed for the first 100 orders**, and that your purchase is covered by our 14-day (from receipt of goods) money back guarantee.