Your money
Your future

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A strategy for life

Shouldn't living happily be one of the things you plan and work for, along with your financial security?

After all, most of us are planning, saving and investing to achieve specific goals like buying a house, or educating a child, or having a financially comfortable retirement because we believe that achieving this goal will make us happy. But is it enough?

If you are already working hard to maximise your income and your savings, how can you maximise the other aspects of your life, such as your general well-being and invest in a little happiness? Here are a few strategies you might try:

- **Don't make work your life.** Look for a work-life balance that includes time for yourself, your family and your friends. The latest survey on happiness suggests that social and psychological factors like being treated with respect or having friends and family are vital for happiness.[*]
- **Take care of your brain and your body.** A comparison of world life expectancy ranks Australia in the top four longest-living people on earth at 79 years for men and 84 years for women. But what is the point of living longer if you don't have the physical strength and mental agility to enjoy it! Scientists have shown that moderate daily exercise not only strengthens the muscles and builds energy levels, but also stimulates the blood supply to the brain and helps keeps mental deterioration at bay.[†]
- **Know yourself and understand what you really want out of life.** Should you take a more stressful job if it brings in more money? Dr Caroline West of the University of Sydney suggests that you should only take such a job if you are an ambitious and competitive person, but if you are a person who enjoys living in the moment, you should consider declining it.[‡]
- **Spend money on experiences, not objects.** Dr West also advises that enjoyable experiences (holidays, learning a new skill or hobby, or enrolling in a new social group or club), deliver longer-lasting happiness than objects like a new car or plasma TV, where the thrill soon wears off.

A successful investment strategy needs clear goals and well-thought-out strategies to achieve them. Isn't happiness worth this kind of input too?

* University of Illinois, 2010, reported in the Sydney Morning Herald, July 10, 2010. www.smh.com.au/lifestyle/wellbeing/money-not-the-key-to-happiness-20100709-1041y.html

† Shephard, R. J. (1998). Aging and Exercise. In: Encyclopedia of Sports Medicine and Science.

‡ Sydney Morning Herald, July 10, 2010. Dr West's new book "On Happiness" will be published in 2011.

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AXA **redefining /** financial planning

Make sure your business can finance your retirement

According to the Australian Bureau of Statistics report: Characteristics of Small Business Operators, there are 1.6 million small business operators in Australia and of these, more than one third are aged over 50[1]. This means that more than half a million small business owners could retire before 2025.

For some, the family business will become a legacy and be handed down to the next generation, but one leading Australian succession planner believes that more than half of all small business owners in Australia plan to use their business as the primary source of funding for their retirement[2].

This means the business must be sold, but who will buy it? Is there a group of competent employees to take over through a management buyout, or does it have to be sold to strangers or even business competitors? And how can the company be internally structured to maximise proceeds from the sale while minimising taxes?

Australian Tax Office research shows that around 60 per cent of businesses do not have a succession plan in place[3], so while many small business owners will have thought about this issue, others may be deferring key decisions until it is almost too late to make the most of what is usually a once-in-a-lifetime opportunity.

Step 1: The succession plan

The first step is usually to decide what your preferred succession option is – hand the business down within the family, sell to current partners and senior employees, or sell to a third party? Each of these choices then leads to more options.

Even a "simple" solution such as handing the company on to the next generation may raise issues of who is going to take over, and whether or not siblings who do not actively run the business will share in the profits.

A management buyout or sale to a third party will also raise issues – will payment be made in cash, for example, or partly financed by the seller? Will the founder remain involved in the business as a board director or minor shareholder? Will the final payout be dependent on future performance?

Finally, two critical questions: how can the proceeds be maximised to boost the owner's superannuation, and how can capital gains tax be minimised for the retiring owner?

Step 2: Tax-effective succession

Capital gains tax concessions for small businesses are significant, and can include exemptions on the sale of businesses owned for more than 15 years, a 50 per cent reduction on the sale of current business assets, an exemption in the case of the sale of assets prior to retirement or a small business roll-over option subject to meeting certain conditions[4]. However, it is essential to structure the business to maximise these concessions. For example, if the company is less than 15 years old, should the primary value be allocated to the shares in the business or the assets it owns? These are issues for your accountant to advise you on.

Superannuation is an attractive destination for the proceeds from selling a business, since the seller may be exempt from the standard non-concessional contributions cap and contribute amounts up to the capital gains tax lifetime cap of $1.205 million from certain sale proceeds, or CGT-exempt funds up to $500,000, directly into a super fund[5].

Finally, if the seller of the company has a self-managed superannuation fund (SMSF), it may be possible for the SMSF to purchase the business premises from the company. This means that you may have an opportunity to retain business real estate in your superannuation portfolio free of capital gains tax, yet remain free to sell the goodwill, turnover and other assets of the business[6].

Effective teamwork essential

Small businesses come in all shapes and sizes, from one- or two-person consultancies to larger companies employing many people, but whatever the size of your business, you usually need specialists on your side to achieve a successful succession plan – a business accountant, your financial planner or a solicitor.

Your accountant or succession planner will assist in valuing the company and advise you on an asset structure that will maximise available tax concessions. Your financial planner, together with your accountant, can develop strategies to manage the transfer of the capital gain into superannuation, helping you to set up an SMSF if this option suits your needs, and advise on the options for converting all or part of your super into a tax effective retirement income.

If you own a small business and you do not yet have a detailed succession plan in place, don't wait until it is too late. Talk with your accountant and financial adviser now, or better still, make it a three-way conversation.

1 http://www.abs.gov.au/ausstats/abs@.nsf/mf/8127.0
2 http://www.successionplus.com.au
3 http://www.successionplus.com.au/
4 ATO.
5 ibid.
6 http://cpaaccountants.com.au/Business_Capital_Gains_Tax__Pitfalls__Possibilities.htm