



Welcome

We would like to take this opportunity to wish all our readers a Merry Christmas and a safe and prosperous New Year.

In this edition of Dental Wealth we look at the key issue of goodwill and how this impacts on the decision to de-incorporate. Also the transition to retirement pension and the strategies for the creation of personal tax savings and the tax tips and traps to consider at Christmas.

If you require any further information on any of the topics we have touched on, please contact Cutcher & Neale to discuss your needs and how we can work with you to meet these challenges and move forward with accuracy and confidence.

Jarrod Bramble
PARTNER

Goodwill and de-incorporation of a dental practice

In our December 2006 edition we looked at the benefits available from de-incorporating a medical practice. Let's now look at the key issue of goodwill and how this impacts on the decision to de-incorporate.

It is crucial to consider whether there is in existence any goodwill, and if so, can the goodwill be transferred upon de-incorporation. This is determined by looking at the sources of goodwill that may be present in a particular practice. Generally, these may include:

- 'Personal goodwill' – particular skills and abilities, reputation and personality possessed by persons working in the practice.
- Other sources – habit or inertia of clients, site or location of the practice etc.

The part of the goodwill that emanates from the practitioner's personality, reputation, skills or attributes is not transferable. However, if other sources of goodwill are present that continue to draw customers to the practice even though the practitioner has no further connection with the business the goodwill can be transferred.

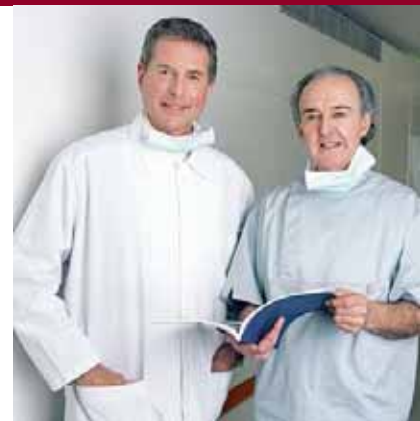
For a Specialist Practitioner

Generally, the goodwill emanates purely from the personal skill and reputation of the practitioner and not from any other source such as location or site goodwill. It follows that the goodwill of the practice is not able to be transferred.

For General Practitioner

It is argued that there are other sources of goodwill other than the personal skill and reputation of the practitioner such as location or site goodwill. It follows that the goodwill of the practice is able to be transferred.

The ability to transfer goodwill on de-incorporation has significant implications from a capital gains tax perspective. Due to the complexities in this area it is necessary for a practitioner contemplating de-incorporating to obtain specific advice in relation to their individual circumstances prior to any steps being taken to de-incorporate.



Transition to Retirement Pension

The Transition to Retirement Pension "TRIP" remains one of the best strategies for creation of personal tax savings and to increase accumulated superannuation wealth.

This strategy can be used by anyone that has reached preservation age but has not yet met a normal condition of release for access to their benefits eg permanent retirement.

Put simply, the strategy for the member is as follows:

- A TRIP is commenced with the member's balance in their superannuation fund
- The earnings in the fund are then tax free to the extent of the TRIP balance
- As the member is receiving an income stream via the TRIP, they are able to salary sacrifice more of their wage into superannuation, thereby maximizing available contribution limits while maintaining disposable income
- Salary sacrificing their wage down to a lower level, reduces personal income tax due to the lower tax rate
- Substituting wage income for an income stream attracts a 15% rebate for members under age 60



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Tax tips and traps to consider at Christmas



Christmas is only weeks away which means you need to start planning your Christmas presents and parties soon to avoid an unpleasant Fringe Benefits Tax (FBT) bill in early 2008. Refer to our 'FBT Quick Reference Table' (right) to get started now. This will make planning presents and parties simple and will hopefully take the stress out of deciding how much to spend on these items without incurring FBT.

FBT Developments

As a result of the May 2006 Federal Budget, the following FBT developments apply from 1 April 2006 (ie. the 2007 FBT year):

- As the highest marginal income tax rate for individuals has decreased from 48.5% to 46.5%, the FBT rate has also decreased from 48.5% to 46.5%.
- The FBT gross-up factors have also changed. The gross-up factor for Type 1 benefits (ie. benefits with GST included in the price) has decreased from 2.1292 to 2.0647. Similarly, the gross-up factor for Type 2 benefits (ie. benefits with no GST included in the price) has decreased from 1.9417 to 1.8692.

The following FBT developments apply from 1 April 2007 (ie. the 2008 FBT year):

- Increase in the minor and infrequent benefits exemption threshold from less than \$100 to less than \$300.
- Increase in the reportable fringe benefits amount threshold from \$1,000 to \$2,000.

FBT Quick Reference Table		
Circumstance	FBT Payable	Tax Deductible
Party On Premises		
Employees	No	No
Employees & spouses – total cost <\$300 – total cost >\$300	No Yes – on benefit to spouse only	No Yes – on benefit to spouse only
Clients	No	No
Party Off Premises		
Employees – cost <\$300 – cost >\$300	No Yes	No Yes
Employees & spouses – total cost <\$300 – total cost >\$300	No Yes	No Yes
Clients	No	No
Gifts to Employees		
<\$300	No	Yes
>\$300	Yes	Yes
Gifts to Clients		
All	No	Yes

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