



# LEWIS ACCOUNTING



## FINANCIAL PLANNERS DESK

written by Andrew Buhk.

### TAX EFFECTIVE INVESTMENTS

Tax effective investments can be a good way to generate future income while receiving the benefits of an upfront tax deduction on the cost of the investment. They are one of 3 strategies to manage annual tax liabilities along with Super-annuation and Gearing.

It is important to remember that they are not a magical wand to make tax disappear but an investment strategy that should be used within an overall strategy to achieve your goals.

Key details are as follows:

The majority of tax effective investments involve the growing of agricultural products such as eucalyptus plantations, olives and almonds.

The general aspects of the investments are as follows:

- Investments are in "lots" or units, each which purchases a guaranteed stocking level of a specific amount of stock (usually trees) per hectare;
- The investment qualifies for a 100% tax deduction in the year invested; and
- Maturity and return are projected in various years depending on the tax effective investment that you choose to invest in.
- Some investments focus on long term growth. ie Eucalyptus Plantations
- Some investments focus on long term income. ie Almonds, Olives or Wine

These investments are generally categorised as "alternative" investment classes. This means their returns are generally not tied to stock market performance. They tend to operate on a different set of investment "risks" which need to be assessed individually.

In this way the investment offers a major benefit to any portfolio by way of diversification. This combined with the tax benefits can make it a very powerful tool within your overall affairs.

There is a risk involved with the investment, however we are comfortable with the recommendation for the following reasons;

- There are independent Trustees
- They seek ATO Product rulings to ensure that the Tax Office is comfortable with the operation of the project.
- The Managers have extensive experience and use outside consultants and advisers;
- Demand for the produce are high and growing;
- Neither the Managers nor the Trustees can borrow funds in connection with the project
- Most come with insurance to protect against principle risks such as fire and pest.

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Finance is also generally available to fund your investment.

The following is an example that details the tax effectiveness if you were to take up 1 Lot of FEA Plantations Project 2007:

1 lot of FEA Plantations Project 2007

Once off (includes GST)	\$3,465
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or

Deposit	Nil
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12 monthly repayments of	\$288.75
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Tax Deduction	\$3,465
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Tax Saving (based on 30% tax rate)	\$1,040
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Net cost	\$2,425
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If you were to purchase say 1 woodlot per year, costing \$288.75 per month, you could benefit from the tax savings up front and also begin to build a yearly income that would commence in 9 years time. The income could be used to help fund retirement or be rolled back in for a further period until retirement.

Most important is that IF you are intending to use any tax effective investment is that you review how it will fit into your overall position and strategy to achieve long term goals. Not just to save Tax.