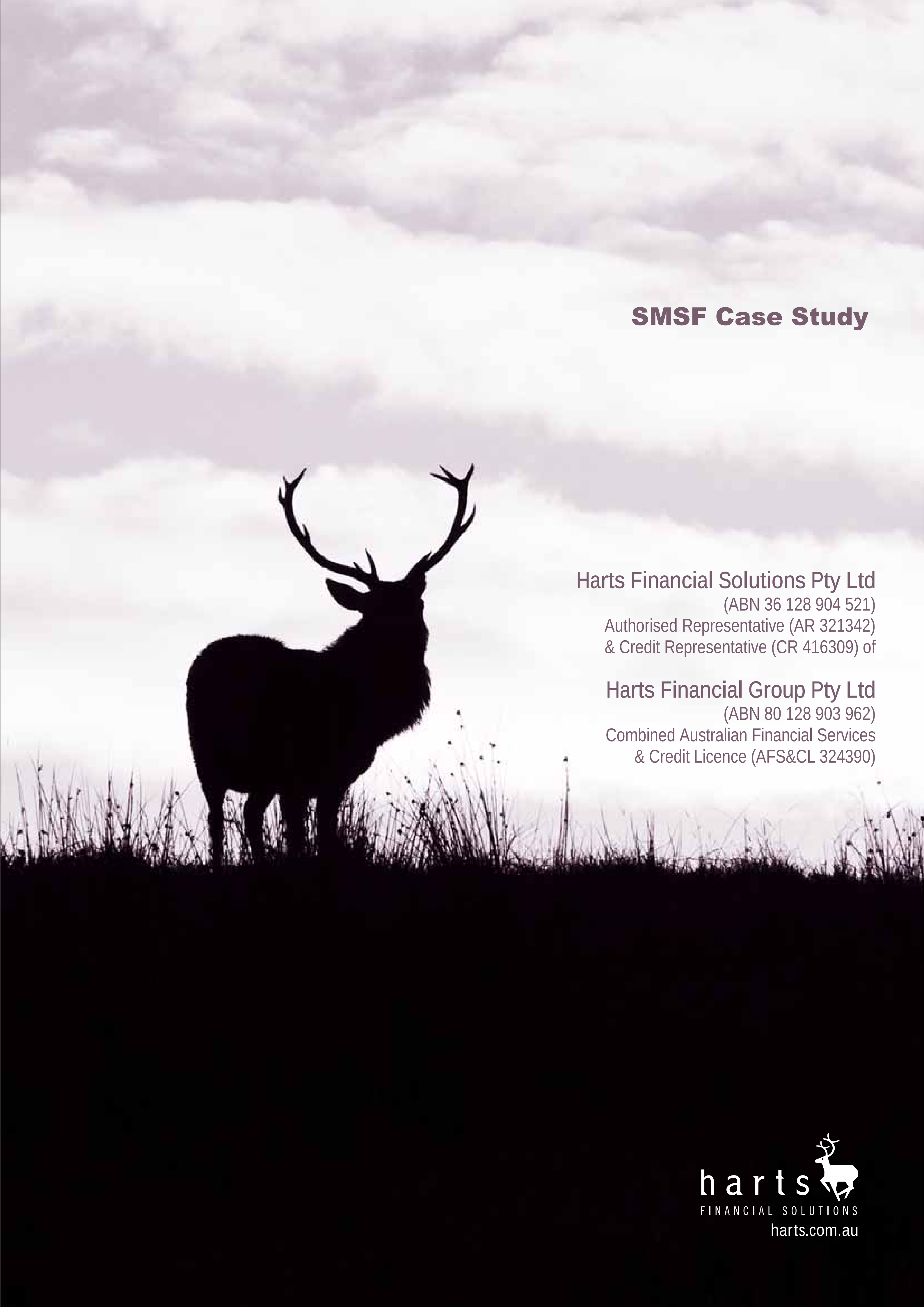

SMSF Case Study

Harts Financial Solutions Pty Ltd
(ABN 36 128 904 521)
Authorised Representative (AR 321342)
& Credit Representative (CR 416309) of

Harts Financial Group Pty Ltd
(ABN 80 128 903 962)
Combined Australian Financial Services
& Credit Licence (AFS&CL 324390)

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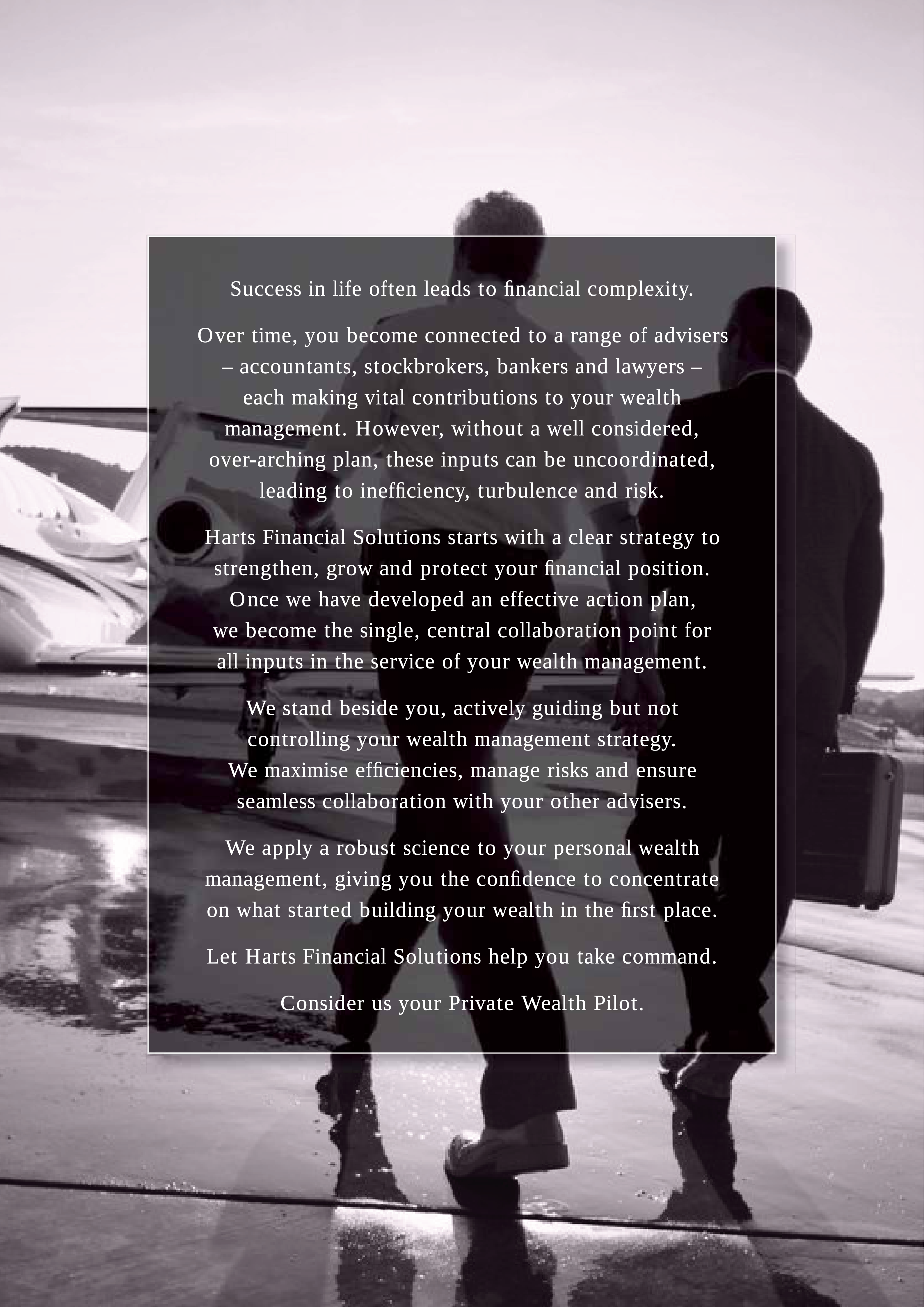

Success in life often leads to financial complexity.

Over time, you become connected to a range of advisers – accountants, stockbrokers, bankers and lawyers – each making vital contributions to your wealth management. However, without a well considered, over-arching plan, these inputs can be uncoordinated, leading to inefficiency, turbulence and risk.

Harts Financial Solutions starts with a clear strategy to strengthen, grow and protect your financial position. Once we have developed an effective action plan, we become the single, central collaboration point for all inputs in the service of your wealth management.

We stand beside you, actively guiding but not controlling your wealth management strategy. We maximise efficiencies, manage risks and ensure seamless collaboration with your other advisers.

We apply a robust science to your personal wealth management, giving you the confidence to concentrate on what started building your wealth in the first place.

Let Harts Financial Solutions help you take command.

Consider us your Private Wealth Pilot.

Advice Disclaimer

This case study has been developed from a financial review performed for a real client. Names have been changed to protect the client's identity. It represents only a very small part of the actual financial review and its intention is to provide an example of the type of advice that Harts Financial Solutions provides.

Information provided is for illustrative purposes only and should not be considered investment advice. No reliance should be placed on any information contained within this case study when making an investment decision.

Case Study

Mark and Sarah are longstanding clients of Harts. They operate a very successful and rapidly expanding business from a leased commercial property in Osborne Park for which the lease expires in 2 years and 4 months. The business is run through a company owned by a trust. Mark and Sarah's primary concern is to facilitate the ongoing success and expansion of their business. They are considering either buying land and constructing a new building or purchasing an established commercial property nearby. They are seeking guidance on whether this is a good idea, and if so, which option is best, when they can purchase, how much they can afford to spend, the optimal ownership structure and the impact this will have on their financial situation.

Mark and Sarah are assessed as having a 'Balanced' risk profile. As such the aim is to produce capital growth in the medium to long-term and maintain a 'Balanced' risk exposure taking into account cash flow, liquidity, capital risk, gearing and asset allocation.

In order to assist Mark and Sarah, we utilise our proprietary Client Analysis Software (CAS) and generate a series of benchmarks and analyses based on the 'Balanced' risk profile. In comparison to these benchmarks, Mark and Sarah's financial situation can be classified as having an acceptable balance sheet, level of liquidity and exposure to growth assets and a strong cash flow and saving capacity. Their tax position can be improved through gearing.

Based on this information we are able to advise Mark and Sarah that their time frame of 2 years and 4 months is insufficient to accumulate sufficient cash, buy land and then construct a new building. However, they will be able to purchase an established $3.5M commercial property in approx. 18 months.

In order to achieve this purchase they need to utilise their net savings capacity (surplus cash flow) to pay down their home loan and then accumulate a cash surplus in a new company beneficiary being taxed at the 30% company tax rate. Once this cash surplus has been achieved, it is then to be used as security for a $3.5M loan through a new Self-Managed Superannuation Fund (SMSF) to purchase the commercial property. Their existing superannuation is also to be rolled over into the new SMSF.

Mark and Sarah will then pay increased rent from the business to the SMSF for the lease of the new commercial property and increase their personal superannuation contributions to the maximum amount. The lease and personal contributions will be sufficient cover the interest on the $3.5M loan and provide a surplus within the fund. Personal risk insurance policies are to be transferred to the SMSF and as a result the payment of the premiums will become more tax effective.

Modelling this proposal at the time of the purchase using the CAS reveals that cash flow, capital risk exposure and growth asset exposure will remain within the relevant benchmarks for a 'Balanced' risk profile and their overall tax rate will significantly improve, reducing by an estimated 13.5% and saving them tax in the order of $66k per year.

Their liquidity position will decrease to a level that falls outside of the 'Balanced' risk profile and places them into the 'Growth' risk profile, however by utilising their net savings capacity they should be able to return their liquidity position to the 'Balanced' risk profile within 12 months. During this 12 month period they will need to be cautious because unexpected circumstances that result in a significant draw on their liquid funds will place pressure on their liquidity position.

Over time as Mark and Sarah generate further profit from the business and accumulate this in the new company beneficiary (at 30% tax), an opportunity may arise for them to refinance the limited-recourse SMSF loan with the new company acting as the financier. This means that the new company receives the interest from the SMSF rather than an external financier and provides a tax effective use for, and good return on, the cash held in the new company beneficiary.

Purchasing the new commercial property using the SMSF will also convey significant advantages to Mark and Sarah when they retire. Should they decide to sell the business and lease the commercial property to someone else, the rent may become tax free at age 60 and can be paid to Mark and Sarah as a pension. In addition, should they decide to sell the property in the pension phase and invest elsewhere, the capital gains tax would be zero, or if before retirement 10%.

This case study provides a good example of how Harts considers a client's situation in its entirety and then assists them to achieve their goals and objectives whilst managing risk and optimising corporate and tax structures.

Harts assisted Mark and Sarah to achieve the following:

- Clarify their short-term financial goals and targets in order to achieve their objectives;
- Achieve the purchase of an established $3.5M commercial property within 18 months allowing the ongoing expansion of the business;
- Facilitate long-term income tax efficiency by utilising a company beneficiary that pays tax at the company tax rate of 30%;
- Potentially capital gains tax free capital growth on a $3.5M property over the long-term;
- Improve their future retirement situation;
- Accurately assess their risks and mitigate where possible.

Should you have any questions or wish to make an appointment to meet with one of our Senior Financial Advisers for an obligation free initial consultation, please contact us via one of the following methods:

Phone: 08 6380 7900
Fax: 08 6380 7950
Email: info@harts.com.au

harts
FINANCIAL SOLUTIONS

Churchill Court, 335 Hay St, Subiaco WA 6008
PO Box 1809, Subiaco WA 6904
T: 08 6380 7900 F: 08 6380 7950
E: info@harts.com.au W: www.harts.com.au

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