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Trusting tax

Trusts have been around for centuries, since the days of knights and round tables and have played many different roles over the years. They can prove an integral tool in your investment and business journey, if used correctly.

By Bec Mackie

The biggest advantage a trust can give you is asset protection. Assets owned by a trust are protected from your activities outside of the trust, and conversely, your assets outside of your trust are protected from your activities within the trust. This means that trusts can be a fantastic tool when running your own business or accumulating your assets. When using a trust you also get the added advantage of the ability to distribute income throughout your family to minimise your overall tax payable. Currently minors can only receive $416 in trust distributions before paying the top marginal rate, but you can distribute to your children who are over 18 to receive up to around $20,000 in tax-free income. Trusts can also give you easier access to cash flow and added capital gains tax discounts as compared to running your business or investments through a company.

When considering property investment, a trust can be a great way to protect those properties from your other activities, such as operating a business. However, when it comes to property they don't suit everyone as we have seen significant hikes in land tax for trusts in some states, in recent years Victoria and NSW. These costs can be significant and need to be factored in when considering a trust to hold your investments. The other issue when using them for property investment is the loss of negative gearing, as any losses must stay within the trust. These issues don't in any way mean you shouldn't use a trust to hold your investments, it just means you need to have a good understanding of all the factors before you make your decision to set one up.

Another advantage of using a trust is the ability to move assets around the family and the role trusts play in succession planning. It's possible to pass a business down to the next generation without triggering any sale just by changing trust trustee company directors. The same applies to your property and other investments. This means you can potentially pass your investment property portfolio onto your children without any tax implications. You also don't have to wait until your death to do this. It can be done outside of your will and can play an integral part of your succession plan.

Trusts can pay an important role in the structuring of your business and investment strategy and should always be considered and discussed with your trusted advisers. We like to discuss the option of a trust for each property purchase and each new business set-up. You need to review your own situation and plans to determine if a trust is the right structure for you and your needs.

Bec Mackie *has extensive experience dealing with tax and structuring advice for investors including structures in self managed superannuation and direct property. For more information, go to www.gatherumgoss.com*