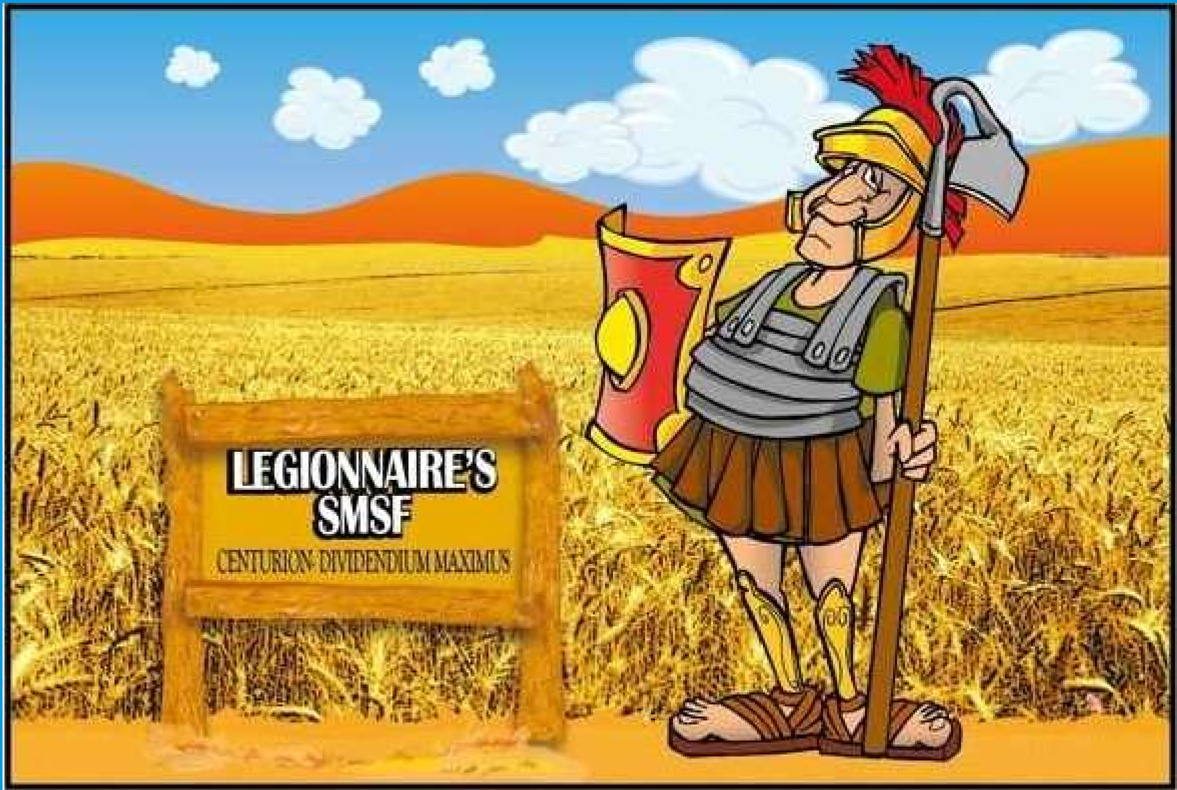
# Tax depends on your vehicle

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# THE JOURNEY

If life is a journey,

one of the two inevitabilities in life is death,

And the other is tax.

# THE JOURNEY

Like any journey, there is usually a choice of the type of vehicle we use.

Choose the wrong vehicle and your after tax investment retirement journey may not be as comfortable as it could have been.

# THE TAX INEVITABALITY

Just like life, there are two inevitabilities in tax:

- Income tax; and
- Capital gains tax

Capital gains tax actually forms part of assessable income and does not have its own tax rate.

# DIFFERENT WAYS INVESTMENTS AND BUSINESSES CAN BE OWNED

- as an individual
- jointly in partnership with other people
- by a family discretionary trust
- by a unit trust
- by a company; or
- through a superannuation fund

# DIFFERENT WAYS INVESTMENTS AND BUSINESSES CAN BE OWNED

When it comes to investing for retirement, the best structure in the long term, is superannuation.

# WHO PAYS TAX

Only two of the entities USUALLY pay tax,

- individuals and,
- companies

# WHO PAYS TAX

In unusual circumstances family discretionary trusts pay tax, when income is not distributed to an individual beneficiary, at the top marginal tax rate.

# WHO PAYS TAX

The other entities only help to either:

- reduce the marginal rate of tax, or
- delay tax being paid.



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# HOW TAX IS CALCULATED

**Step 1**
Calculate total income earned in the financial year

**Step 2**
If a capital gain is made calculate the assessable amount.

**Step 3**
Add assessable capital gain to total income to arrive at total assessable income

# HOW TAX IS CALCULATED

**Step 4**

Subtract all allowable deductions to calculate net taxable income

**Step 5**

Calculate tax payable based on applicable individual marginal or company tax rate

# INVESTMENTS OWNED BY INDIVIDUALS

Disadvantage

- All of the income earned is taxed at the applicable marginal tax rate

Advantage

- All capital gains tax discounts available

# 2018 TAX RATES

| Annual Taxable Income | Tax on Income | | Tax rate on Excess | Medicare Levy | Total tax rate Payable |
|---|---|---|---|---|---|
| 0 to $18,200 | 0 | Plus | 0% | 0% | 0% |
| $18,201 to $37,000 | 0 | Plus | 19% | 2% | 21% |
| $37,001 to $80,000 | $3,572 | Plus | 32.5% | 2% | 34.5% |
| $80,001 to $180,000 | $17,547 | Plus | 37% | 2% | 39% |
| $180,000 and above | $54,547 | Plus | 45% | 2% | 49% |



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# INVESTMENTS OWNED BY INDIVIDUALS

Tax Tip

Where one member of a couple earns high levels of either employment or business income, investments should be put in the other person's name.

Opposite applies when negative gearing strategies are used, except capital gains tax must be managed.

# INVESTMENTS OWNED JOINTLY OR IN PARTNERSHIP

Disadvantage

- Income earned is distributed to partners and taxed at their applicable marginal tax rate.

Advantages

- All capital gains tax discounts available
- Ability to vary income distributed in certain circumstances
- Full access to small business CGT concessions

# INVESTMENTS OWNED BY A FAMILY TRUST

Trusts are not a recent invention to minimise income tax.

They can trace their ancestry back to the middle ages when crusaders used them to manage and protect their lands when they were off crusading.

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# INVESTMENTS OWNED BY A FAMILY TRUST

Disadvantages

- Cost of setting up especially if a company is used as trustee; and
- Increased accounting fees

Advantages

- Ability to distribute net income of trust amongst family members so that tax is paid at lowest marginal tax rate
- All capital gains tax discounts available
- Full access to small business CGT concessions.

# INVESTMENTS OWNED BY A UNIT TRUST

Disadvantage

- Cost of setting up especially if a company is used as trustee
- Increased accounting fees
- Loss of small business CGT concessions; and
- Income distributed according to ownership share

Advantages

- 50% general capital gains tax discounts available
- Can have unrelated parties own investments.

# INVESTMENTS OWNED BY A COMPANY

Disadvantages

- Cost of setting up
- Increased accounting fees
- Cannot access any capital gains tax discounts; and
- Highly regulated and controlled i.e. loans to shareholders

# INVESTMENTS OWNED BY A COMPANY

Advantages

- Legal protection, and
- Ability to accumulate income paying at the lower company tax rate and distribute when owners have lower assessable income
- Unrelated parties can own investments.

# INVESTMENTS OWNED BY AN SMSF

Disadvantages

- Cost of setting up
- Increased accounting fees Advantages
- Highly regulated and controlled; and
- Cannot access until condition of release is met

# INVESTMENTS OWNED BY AN SMSF

Advantages

- Tax paid on income at 15% and on capital gains at 10% on investments in accumulation accounts
- No tax payable on income earned on investments in pension accounts
- When income distributed to members either discounted or tax free

# QUESTIONS

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