Morrows Knows: Tax Planning 2014

Discretionary Trust Strategies

Consider setting up a discretionary trust for your investments or business

Benefits of having a discretionary trust include:

- A flexible means of distributing income and capital gains. This allows income to be distributed to the person in the best tax position. For example minors such as children or grandchildren, with no other passive income such as interest, dividends and trust distributions, can be distributed an amount of $416 tax free. Therefore, for example if you had 4 grandchildren, by distributing income through a trust structure, you would be able to reduce your taxable income by $1,664 (4 x $416). This could potentially save you $774 of income tax. In addition any children or grandchildren that are over the age of 18 are taxed at normal rates of the first $20,542 being tax free.
- Distribute income to the person who is in the lowest tax bracket resulting in the tax being calculated at a lower rate.
- Asset protection. Setting up a trust for investment in effect separates your investments from your business. This factor may prove advantageous should any litigation problems arise in your business operations.
- Trusts have limited liability. Liability for debts is restricted to the funds of the trust and personal assets will not be utilised to pay remaining debts.

Existing Trust? Do your trust minutes to save tax

In 2012, the ATO changed its approach to distribution of trust income following on the outcome of what is known as the Bamford case. The case resulted in the ATO confirming that all trustees must make Trust Resolutions regarding the distribution of income on or before 30 June each year. Morrows has worked with all its clients since then to ensure they had the appropriate meetings and minutes to satisfy the Trust's and ATO's requirements.

The first steps are to contact Morrows and organise an assessment of your Trust's income position and receive advice on an appropriate Trust distribution; to ensure that your Trust Resolution Meeting is held; and it is documented with Trustee minutes that are signed prior to 30 June 2014.

Taking this simple action will give you the security and peace of mind that comes from ensuring your ATO compliance requirements are met.

What happens if you don't comply? Any trust identified by the ATO that has not made a Trustee Resolution by 30 June 2014 will be considered non-compliant and will be liable to pay tax at the rate of 46.5% - is it worth the risk?

Disclaimer: *The information provided in this communication is general in nature and not intended to be advice. You should contact our office for further information or for a tailored solution to your needs*

Morrows Taxation Advisory

Morrows provides you with sophisticated and forward-thinking business, taxation and accounting services that help you meet your own, your family's and your business' taxation, compliance, business planning and financial goals.

Please call us on 03 9690 5700 or email **businessandtax@morrows.com.au** to understand how we can work with you and your family.