Family Trust
Strategy Paper

- A strategy to manage tax expenditure by considering distributions from a family trust that is particularly useful for trusts with substantial income.
- A simple strategy for family trusts that are holding high levels of liquid assets.

Family trusts (trusts) have cemented their place in financial planning by allowing discretion to distribute income to a number of members.

As the trust grows in value, income distributions may reach a size that creates tax planning challenges for the members.

Family Trusts

Family trusts have three key goals:

- Protect assets;
- Minimise tax; and
- Maximise control.

Family trusts distribute each year to the beneficiaries and the beneficiaries are then responsible for managing their own tax position. This can be an effective tax management tool, but can be made even more effective.

Investment Bonds

Lifeplan Investment Bond operates under a tax structure that is taxed internally. Investment income is tax capped at 30 per cent* and may be less due to the use of allowable tax credits and other tax benefits, depending on the chosen portfolio.

By choosing to invest in Lifeplan Investment Bond, a family trust can help reduce the distributable income that is received by each member.

Case Study

This case study will explore the advantages of moving the cash/fixed interest investments assets of a family trust into a similar portfolio within Lifeplan Investment Bond.

Assumptions:

- A family trust with $3 million invested in liquid assets (eg cash/fixed interest investments) earning 3.0 per cent p.a.
- Three members receiving distributions as per table below.
- Lifeplan Investment Bond with similar cash/fixed interest investments earning 3.0 per cent p.a. (after fees, before tax).
- All members have private health insurance and have no Medicare levy surcharge.
- No HECS debt.

Family Trust - Cash/Fixed Interest

	Beneficiary A	Beneficiary B	Beneficiary C	Total Tax Paid
Income	$75,000	$100,000	$200,000	
Trust Distribution	$30,000	$30,000	$30,000	
Total	$105,000	$130,000	$230,000	
Tax & Medicare	$28,142	$38,197	$81,197	$147,536

Family Trust - Lifeplan Investment Bond

	Beneficiary A	Beneficiary B	Beneficiary C	Bond	Total Tax Paid
Income	$75,000	$100,000	$200,000	$90,000	
Trust Distribution	Nil	Nil	Nil	Nil	
Total	$75,000	$100,000	$200,000	$90,000	
Tax & Medicare	$16,892	$26,117	$67,097	$27,000	$137,106
				Tax Savings	$10,430

Figures based on 2018/19 income tax rates inclusive of Medicare levy and the low and middle income tax offset (LMITO).

*ato.gov.au

As the Lifeplan Investment Bond will be paying investment income tax at 30 per cent, they have saved $10,430 in the first year and likely growing into later years.

The members may enjoy a number of other advantages from the reduced family trust distribution including:

- Prevent moving into a higher tax bracket;
- Prevent breaching thresholds for many benefits that are primarily assessed based on taxable income:
  - Medicare levy surcharge.
  - Private health insurance rebate.
  - Family Tax Benefits A&B.
  - Commonwealth Senior Health Card.
  - Superannuation co-contribution and/or low income superannuation contributions refund.
- May reduce or eliminate instalment tax.
- May improve payments for those receiving Centrelink benefits (not pensions or allowances) due to the reduced distribution.

Quite often distributable income from a discretionary trust is also passed to a corporate entity in order to cap the maximum tax rate at no more than 30 per cent*. While there is merit in this approach, it adds another layer of complexity and cost to the investor, as well as requiring its own estate planning strategy to ensure stable successorship.

Perhaps holding an investment bond within the Family Trust in the first place could negate the need to distribute Family Trust earnings unless needed, and can provide a simple and effective tax arbitrage for the members.

Value assessment

The previous scenario provides a high level of value for the advice given. If the advice costs $2,500 for this strategy initially and $500 p.a. for review, over five years the practice earns $5,000 whilst the investors' net position after fees and tax has been improved by $47,150.

* ato.gov.au

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