



How to  
**Legally**  
**Reduce**  
**Your Tax**

*... without losing any money!*

Discover how the rich use company and trust structures to protect their assets and minimise their tax.

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**How to Legally Reduce Your Tax ... Without Losing Any Money**

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OF THIS BOOK.**

## The Two Main Taxes

Before we delve into the tools of the game, namely companies and trust structures, it is necessary to show you how to keep score. You need to know if you are winning at this game called tax. You do this by measuring the differences in tax rates between an individual and a company or trust.

Income tax is money taken out of your salary before you see it. The more you earn, the higher the rate. The table below shows the current Australian personal income tax rates, effective from July 2005.

**Income Tax Rates Table**

<b>Income Bracket (July 2005)</b>	<b>Income Bracket (July 2006)</b>	<b>Tax Rate</b>
\$0 - \$6000	\$0 - \$6000	Nil
\$6001- \$21,600	\$6001- \$21,600	15 %*
\$21,601 - \$63,000	\$21,601 - \$70,000	30 %*
\$63,001 - \$95,000	\$70,001 - \$125,000	42 %*
\$95,001 +	\$125,001 +	47 %*

\*Plus Medicare levy which is normally calculated at 1.5% of your taxable income but this rate may vary depending on your circumstances. Throughout this book 48.5% is quoted as the highest tax bracket, which is the highest income tax rate of 47% plus the Medicare levy.

gentleman comes to mind who was seeking counsel about this very thing. He was in the “unfortunate” predicament of having made over a million dollars on some shares he had purchased. Because he purchased them in his own name, he was reluctant to sell, knowing he would lose nearly \$250,000 in CGT. This delay cost him more because the share price reversed, halving his gain. Had he been correctly structured, the CGT would have been dramatically reduced.

Usually, when people realize the difference between CGT and income tax and that CGT is relative to income tax, they immediately conclude that if they earned no income then the CGT would be zero. Although a logical and sensible consideration it is unfortunately not the case. If, during a financial year, you receive no income but a large capital gain, the capital gain would be taxed as income, after the 50% discount, providing you owned the asset for more than 12 months.

Please note that CGT does not apply to properties purchased prior to September 1985.

### **Tax Factors**

☞ The term ROI is an acronym for two phrases:

Return *Of* Investment is measured in the *Time* it takes to return your investment.

Return *On* Investment is measured in a dollar amount or percentage.

**“Widow earns \$250,000 practically tax free!”**

Elsie’s husband, Jack, had died several years earlier, leaving her with six million dollars in property; of course she would have given up the properties to have Jack back any day. He had done the right thing and become an investor early on, providing well for the family. The kids, of course, had grown up and although close to their mother, she lived alone.

Elsie was receiving \$250,000 rental income from the properties. At 58 years of age she still had plenty of life in her. Her main priorities were to enjoy the remainder of her life and to make sure that the family fortune was passed on to her four children; that is, after all, what Jack wanted.

Elsie came to see us and this is what we did.

The properties were all in Elsie’s name and she was paying approximately \$75,000 in income tax. Firstly we set up a unit trust and a Self-Managed Super Fund (SMSF). We then got Elsie to make a special contribution of \$6 million to her SMSF, a kind of “I owe you” note. The SMSF then bought \$6 million worth of units in the unit trust and in turn the unit trust bought the property off Elsie. Fortunately, the property was purchased prior to 1985 so there was no capital gains tax to be paid. With property now owned by the unit trust, all income goes to the holder of the units, which is the SMSF.

The end result is that Elsie no longer owns the properties, so these can be passed on to the next generation without much effort and there is the income tax saving. Due to certain law with superannuation, Elsie is able to draw a pension from the SMSF. The rental income of \$250,000 is now going to the