how to structure your investment holdings

Ownership structure

It's always a good idea to build your wealth. Perhaps you've already purchased an investment property or bought shares. Or maybe you only recently started thinking about building an investment portfolio.

As a doctor, you are considered to be in an occupation that is generally considered to be high risk. Therefore, an important consideration when determining ownership structure is asset protection.

What makes a business high-risk?
It could be that you're self-employed and employ staff. Or you might be working as a sole trader within a clinic. Or perhaps you might have accumulated significant debt from setting up your practice or rooms.

This is why it is important to consider an investment structure to safeguard your assets. Purchasing assets in your name or joint names may not provide you with asset protection. You may need to look at other financial ownership structures, such as a trust or a company.

When it comes to which ownership structure is right for you, it is also important to ensure the tax structure you've chosen aligns with your long-term strategy.

Ask yourself the following questions:

- Why are you buying the property investment?
- What timeline do you have?
- How long do you plan to hold onto the property investment?

Below, we outline a few different ownership structures and when each structure may be suitable.

1. Individuals

The simplest ownership structure is owning the investment asset as an individual. This means you buy the investment in your name. Getting finance for a property purchased in your name is also straightforward as you can use payslips and tax returns as your proof of income. On the downside, buying a property in your name doesn't offer asset protection if you are personally sued.

You have more control over your investments when they're in your own name. They're easier to manage, and you can buy and sell them yourself.

There's also less paperwork involved than other structures and it is less expensive to set up and operate.

Any capital gains derived from the sale of your investments are assessed at your marginal tax rate. This includes income from rent, dividends and distributions.

2. Trusts

Trusts are a popular option amongst investors. The most common trusts used by property investors are a family trust or a unit trust. Most trusts are purposefully designed to minimise tax. Trusts generally provide greater flexibility and asset protection.

A unit trust gives you a defined interest in the trust, so your profit from the property will be the same as your ownership within the trust. Unit trusts can be a good option for unrelated parties investing together.

A family trust differs slightly. It doesn't have defined unit holders and provides excellent flexibility and asset protection. The complexity of your trust structure may impact how much you can borrow, so you need to speak to your accountant about this when you apply for finance.

The trustee manages the tax affairs of the trust, including lodging trust tax returns and distributing income to the beneficiaries. These beneficiaries pay tax on the income they receive from the trust.

3. Superannuation

Superannuation is one of the most tax-effective vehicles for accruing retirement savings. Investment earnings are taxed at a rate of 15%. Capital Gains Tax on assets held through superannuation for over 12 months is 10% (i.e., a 33.3% discount). Best of all, when you retire, all that income and capital gains may be free of any tax liability.

A key reason for the favourable tax treatment of superannuation is because the Federal Government wants to encourage people to invest and create wealth to allow them to retire comfortably and not rely so heavily on social security benefits.

Superannuation savings can be contributed to an industry fund, a retail fund or a Self-Managed Superannuation Fund (SMSF). If an SMSF is appropriate to be established for your circumstances, it is a legal requirement to have your records audited each year and to prepare and submit an income tax return to the Australian Taxation Office.

4. Company

A company structure could be a good option for property developers or full-time property investors. As a separate legal entity, the company is run by the appointed directors and owned by shareholders. Under this structure, the property and mortgage would be under the company name. Income will be taxed at either 30% if the income is derived from business activity or 27.5% if the income derived is investment income and it is applicable for small companies with turnover below $50 million.

You get increased asset protection under a company structure, but you don't have access to the capital gains tax discount. If you don't intend to hold your properties for a long time, a company structure may not be worth the time and cost to establish and maintain.

Conclusion

When it comes down to it, there is no one-size-fits-all when it comes to an ownership structure. The range of considerations and complexities differ from one person to the next, so it's paramount that you seek financial advice about which structures and options work best for your circumstances. Structuring your investments to maximise tax benefits and minimise financial risk will entail certain costs. However, if done wisely, the financial benefits over time should far outweigh those costs.

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