

Tax Deferred Example

Here is an example of tax deferred and how it works.

Steve is an investor in one of Quanta's unlisted property funds. Let's assume he invested \$100,000 at \$1.00 per unit, and received \$8,000 over 12 monthly distributions, with 40% or \$3,200 tax deferred. We also assume Steve's taxable income is within the \$45k - \$120k bracket with an average personal marginal tax rate at 32.5% excluding Medicare Levy.

RESIDENT TAX RATES 2023-24

Taxable Income	Tax on this income
0 - \$18,200	NIL
\$18,201 - \$45,000	19 cents for each \$1 over \$18,200
\$45,001 - \$120,000	\$5,092 plus 32.5 cents for each \$1 over \$45,000
\$120,001 - \$180,000	\$29,467 plus 37 cents for each \$1 over \$120,000
\$180,001 and over	\$51,667 plus 45 cents for each \$1 over \$180,000

Without tax deferred, Steve will add the entire \$8,000 to his taxable income and pay \$2,600 of income tax at his marginal tax rate. i.e. $\$8,000 \times 32.5\%$.

As the distributions Steve has received from Quanta have a tax deferred component, Steve will only include \$4,800 in his tax return, with income tax reduced to \$1,560 at his marginal tax rate, i.e. $\$8,000 \times (1 - 40\%) \times 32.5\%$.

ANNUAL DISTRIBUTION

	With Tax Deferred	Without Tax Deferred
12 Month Distribution	\$8,000	\$8,000
Less Tax Deferred	(\$3,200)	\$0
Taxable Income	\$4,800	\$8,000
Tax Payable	(\$1,560)	(\$2,600)
After Tax Distribution	\$6,440	\$5,400
Additional Cash	\$1,040	\$0

The tax deferred component of distributions may reduce the tax payable, but it also reduces the cost base of the investment. Steve is also entitled to a 50% discount on any capital gain if he holds the units for more than 12 months.

If Steve sells his units for \$105,000 or \$1.05 per unit 12 months later, his cost base is reduced to \$96,800, i.e. \$100,000 - \$3,200 tax deferred. Steve's capital gain will be \$8,200 based on the new cost base.

Of the \$3,200 tax deferred mentioned earlier, Steve will only need to pay capital gains tax on \$1,600 (due to the 50% capital gain discount) at his marginal tax rate.

This example is not intended to be tax advice and you should consult a professional tax adviser, if necessary, for tax advice in connection with your individual circumstances.

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