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Small Business Trusts

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The Benefits of a Trust in Small Business

If you follow money maker gurus such as Robert Kiyosaki and Donald Trump you will note their advice in having a trust set-up for your assets. Their reasoning is if you were ever sued the asset is secure, whereas if the asset is held in your own name then the asset is at potential risk and possible loss.

Another benefit for having a trust is to use the income sourced from the asset to pay the beneficiaries. This provides a great tax benefit in owning a discretionary family trust. A discretionary family trust is commonly used for small to medium sized businesses. A trust is basically an agreement for a person or company to hold an asset for the benefit of others, the beneficiaries.

The trustee has control over the assets and can distribute the income generated in any way they see fit to the beneficiaries. The beneficiaries pay tax on any payments made to them and the income provided will form part of the beneficiary's assessable taxable income. There are establishment and managing costs related to trusts, which will need to be calculated into your budget.

A unit trust acts as a company where the trust's asset is divided into a number of shares, which are termed units. The number of units held determines the amount of capital gains, income and voting power. The unit holders can be individuals, companies or discretionary trusts. The tax benefit is not as flexible as a discretionary trust. And the unit trust does not offer complete security against the asset. If a unit holder is bankrupt, then that person's units may be sold to raise funds to pay creditors.

A hybrid trust combines the features of the discretionary trust and the unit trust. The hybrid trust allows the trustee to distribute benefits to the beneficiaries and issue units to unit holders in its sole discretion. Unit holders can claim a deduction for the interest incurred on the cost of their units.

If you want your hard earned assets to stay within the family once you pass on, a testamentary trust may be one way for this to happen. It is a trust created by a will. The Trustee has full discretion about who benefits and how much to receive. The benefits are the tax advantages of income splitting and the protection of assets. Another significant advantage is the assets are owned by the trustee and the income and capital of the trust passes to the beneficiaries. This clear separation of control allows testamentary trusts to protect assets from any legal action involving the beneficiaries and/or misuse of the assets.

The above outlines the main trusts related to small businesses. Before entering into any agreement, it is best to discuss your situation with our tax advisors at:

Tax Matters & Business Affairs Pty Ltd on

03 9416 1679 or email **info@taxmatters.net.au**