

BUYING IN A TRUST THE INS AND OUTS

When to consider a trust:

- **If you own a business or looking to start a business**
- **You have children and you are beyond the retirement age.**
- **If you have a large property portfolio**

What is a trust –A trust is a legal entity that holds assets on behalf of its founder.

A trust is an arrangement that allows a third party (Trustee) to hold property on behalf of a beneficiary. Trusts can be arranged in many ways and can specify exactly how and when the assets pass to the beneficiaries.

PROS:

- **Separation of ownership** – The property would not fall part of your estate which could protect it from creditors. Reduces the value of your own personal estate, protects your estate from higher taxation upon your death due to the added value of the property.
- **Suitable management** - Should something happen to your physical or mental well-being the property would still be well managed by the trust.
- **Income and Tax Strategies** – Income earned by the property is taxed at 45%. Should the estate pay the trustees or a nominated beneficiary, then the beneficiary or trusts will be charged as per their personal tax instead of the 45%.

CONS:

- **Capital Gains Tax (CGT) implications** – (CGT is only charged when a property is sold and there has been financial gains between the sales price and purchase price) Trusts are charged a capital gains tax rate of about 36% whereas an individual gets charged a maximum effective rate of 18%
- **Tax on income** – 45% tax charged on any income from the property which is high unless Tax strategies are implemented.
- **Obtaining Finance** – Getting a bond grant tends to be harder to get when buying in a trust and would often require the trustees to stand surety for the bond repayments.

Buying in a trust: The Documents

You will need the following documents in order to buy on behalf of a trust.

- Copies of the letters of authority in favour of the trustees.
- A copy of the deed of trust; and
- A resolution of trustees in cases where not all the trustees are signing the agreement.