

Joint investments

Case study: for financial advisers only

Objective

- Share returns with a non-working spouse, another dependent or Self Managed Superannuation Fund (SMSF).

Assumptions

- Bill is 35 years old and is a manager in a blue chip company
- Bill currently earns a salary of \$200,000 per annum
- Bill's wife cares for their children and does not have any other source of income
- Bill is keen to make an investment where he can possibly share the future return potential.

Possible investment strategy

Bill's adviser recommends the following investment strategy:

- Bill invests in 40 Interests in the Tree Project
- Bill's wife invests in 40 blocks of 475 Units in the Land Trust or Bill's SMSF invests in 40 blocks of 475 Units in the Land Trust.

Bill has read the Macquarie Forestry Investment 2011 Product Disclosure Statement (PDS) and is comfortable with the terms and risks of the investment.

Potential benefits

By implementing this simple investment strategy, Bill has achieved the following benefits:

- portfolio diversity by investing in an alternative asset class (that has low correlation with traditional asset classes)
- an increase in after tax cash for this year of \$41,409[#]
- opportunity to use the increased after tax cashflow to make further investments or to fund personal expenditure
- opportunity to share the future return potential
- the opportunity for Bill's wife to receive an annual income stream through her investment in the Land Trust
- the total of all the annual income earned by Bill's wife may be up to \$11,435 over the life of the investment.

The investment strategy has the following effect on Bill's individual position for the 2011 year:

	With strategy	Without strategy
Salary	\$200,000	\$200,000
Tax deduction for the investment in the Tree Project*	\$103,400	\$0
Taxable income	\$96,600	\$200,000
Income tax payable **	\$25,141	\$66,550
Increase in after tax cash and investments	\$41,409#	

The investment strategy has the following effect when income is received from the investment in the land:

	Bill's wife invests in the Land Trust	Bill's SMSF invests in the Land Trust	Bill invests in the Land Trust
Tax rate on any rental income	Possibly 0%^^	15%	46.50%
Tax rate on any capital gain from sale of land^	Possibly 0%^^	10%	23.25%

- # This ignores the cash outlay for the Tree Project investment on the assumption that Bill would otherwise use the same cash outlay to make another direct investment, for example shares.
- * Assumes the individual is not registered for Goods and Services Tax (GST). Assumes the client is a member of the class of entities specified in the ATO Product Ruling, PR 2011/2.
- ** Assumes the client is an Australian tax resident and assumes 2011 tax rates and implications and the Medicare Levy of 1.5 per cent is payable, but ignoring the effects of a possible Medicare surcharge levy payable.
- ^ Assumes the relevant asset was held for greater than 12 months on capital account and the 50 per cent Capital Gains Tax (CGT) discount applies to the capital gain in respect of an individual or 33.3 per cent discount in respect of an SMSF.
- ^^ Zero per cent up to taxable income of \$6,000, and assumes Bill's wife has no other taxable income for the life of the investment.

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1800 617 900



macquarie.com.au/forestry



agribusiness@macquarie.com