

Offsetting capital gains tax

Case study: for financial advisers only

Objective

- Diversifying investments and offsetting Capital Gains Tax (CGT).

Assumptions

- Sarah has recently sold an investment property for which she received \$735,000 after costs
- Sarah purchased the property in the year 2000 for \$500,000
- With the CGT discount, Sarah's taxable gain is \$117,500*
- Sarah has an annual salary of \$200,000 and is registered for Goods and Services Tax (GST).

Possible investment strategy

Sarah's adviser recommends the following investment strategy:

- Sarah invests in 50 interests (\$129,250 including GST) in the Tree Project
- Sarah uses the deduction from the investment in the Tree Project to offset capital gains, and reducing capital gains tax to nil.

Sarah 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, Sarah has achieved the following benefits:

- portfolio diversity by investing in an alternative asset class (that has low correlation with traditional asset classes)
- offset her CGT liability
- tax payable is lower by \$54,638.

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

	With strategy	Without strategy
Salary	\$200,000	\$200,000
Taxable gain on investment property	\$117,500	\$117,500
Tax deduction for investment in the Tree Project (excluding GST)**	\$117,500	\$0
Taxable income	\$200,000	\$317,500
Tax payable (including Medicare Levy)***	\$66,550	\$121,188

- * Assumes the client receives a 50 per cent CGT discount by holding the asset for at least 12 months.
- ** 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.

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1800 617 900



macquarie.com.au/forestry



agribusiness@macquarie.com