

INCOME PROTECTION – USING THE FAMILY TRUST

Operating your business through a family trust is a very common strategy for many reasons – asset protection and tax minimisation are generally the two key drivers. Having the ability to distribute income to other family members, thus reducing the business owners personal tax liability is a game changer in terms of total income tax paid.

So why is it that most people have their income protection owned personally? Under this ownership structure, the insurance company will pay 100% of the proceeds to the business owner personally with no opportunity to distribute income to family members to minimise tax.

In fact, in many cases, the business owner’s personal tax liability could increase as income protection benefit payments are assessable for taxation purposes.

Using a simple example to illustrate the point, currently Mary runs a successful private medical practice which generates \$400,000 of assessable income. The business is owned via a family trust and

Mary splits income with her husband Bill, who is the primary care giver but helps with practice administration etc. Mary can insure up to a maximum of 75% of her income via an income protection policy which she does.

The table below shows a comparison between the effect on their net income if she had the policy owned personally or via their family trust.

	Current situation Income split 50/50 via Family Trust			Income Protection claim Policy owned Personally			Income Protection claim Policy owned by family trust		
Gross Income	\$ 400,000			\$ 300,000 (75%)			\$ 300,000 (75%)		
		Income tax	Net income		Income tax	Net income		Income tax	Net income
Bill	\$ 200,000	\$ 63,232	\$ 136,768	\$ 300,000	\$ 108,232	\$ 191,768	\$ 150,000	\$ 43,132	\$ 106,868
Mary	\$ 200,000	\$ 63,232	\$ 136,768				\$ 150,000	\$ 43,132	\$ 106,868
Net Income received			\$ 273,536			\$ 191,768			\$ 213,736

A simple change of ownership of this policy from the business owner to the family trust will allow for the benefit payments to be made to the trust so that distributions can continue even when the business owner is incapacitated. Please make sure you seek advice from your accountant & personal insurance advice specialist before considering this change.

Conclusion

If you would like some assistance in determining what is right for you please get in touch, and we will help with a no cost, no obligation initial discussion.

DISCLAIMER: This White Paper is of a general nature only and has been prepared without considering your financial needs, circumstances and objectives. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional advice before acting on the information contained in this publication.

If you require further advice in relation to the above or business generally, please contact us.

More Information?

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