Trilogy Funds

Understanding tax deferred amounts from property trusts

As a property investor, you may be entitled to receive distributions that include tax deferred amounts on a regular basis.

Information in this fact sheet is current as at June 2023. It is also general in nature the purpose of this document is to briefly outline the Australian income tax implications of such tax deferred amounts. Note, the analysis below is only relevant for Australian resident investors that hold their units in a Trilogy Funds managed fund on capital account. It is also general in nature and we recommend you seek independent, professional advice.

The regular income distributions from a property trust are predominantly comprised of the net trust income after deducting cash expenses of the property and the trust. Distributions from the trust may include assessable components (e.g. net rental income) and non-assessable components (e.g. tax deferred amounts).

What are tax deferred amounts?

Tax deferred amounts refer to distributions from a trust that have been received by an investor, but, are not assessable immediately for income tax purposes for investments held on capital account.

Who is eligible to receive tax deferred amounts?

All investors who invest in unlisted property trusts that Trilogy Funds manage may receive tax deferred distributions if applicable. As at June 2023, these include the Trilogy Industrial Property Trust, Cannon Hill Office Trust, Milton Office Trust and Pymble Private Property Trust.

Note, the estimated tax deferred distribution percentage may vary between trusts as it is calculated based on several factors.

Why are certain components of distributions tax deferred?

Distributions from a trust may include a non-assessable (i.e. tax deferred) component when the cash distribution exceeds the assessable components of the distribution. Tax deferred distributions generally arise due to non-cash deductions, such as depreciation.

When do I pay tax on tax deferred amounts?

The tax liability on a tax deferred distribution is generally deferred until the asset (i.e. unit(s) in the fund) is disposed. Tax deferred distributions reduce the cost base of the investment into the trust, this includes any additional investments or redemptions.

Tax deferred amounts are generally brought to account on the ultimate disposal or redemption of an investor's unit(s) in the trust as the reduction to the cost base of the units will impact the capital gain or loss made on disposal of the unit(s).

Further, where the tax deferred distribution received on a unit in the trust is greater than the tax cost base of that unit, the tax cost base of the unit is reduced to nil. The amount by which the tax deferred distribution exceeds the tax cost base of the unit, should be regarded as a discountable capital gain. The discountable capital gain is recognised at the end of the relevant financial year or immediately before the time of another Capital Gains Tax (CGT) event on the units, whichever is the earlier.

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How do tax deferred amounts work?

An example is shown below:

John invests $100,000 in the 'Example Property Trust (Trust)'. During the year, John has received 12 monthly distributions from the Trust at 8% per annum. The Trust has distributed the monthly distributions with both a taxable and non-taxable component (tax deferred). As John has received tax deferred amounts, these will reduce his cost base and not be assessed in his income tax return in the year in which the distribution was received.

Over the year, 40% of the Trust's distributions were tax deferred.

Original purchase of units:	$100,000
Distributions received (8% p.a.) over 12 months:	$8,000
Tax deferred amount (40% of 8%):	$3,200
Assessable income (60% of 8%):	$4,800

As John has received $3,200 in tax deferred amounts, this amount will reduce his cost base and will not form part of his assessable income for the financial year in which the distributions were received. The cost base of John's initial $100,000 investment is reduced by the $3,200 for capital gains tax purposes.

Original purchase of units:	$100,000
Tax deferred amount:	$(3,200)
New cost base:	$96,800

John's new cost base for capital gains tax purposes is $96,800. On redemption of John's units in the Trust, the updated cost base is used to determine if John has made a capital gain or loss. If John redeems his units for more than $96,800 the amount over $96,800 will be taxed at capital gains rate.

What are the potential benefits of tax deferred amounts?

Tax deferred amounts have the potential to provide the following benefits to long-term investors, depending on their individual circumstances. These may include:

1. Investors may only be taxed in any year on a portion of the cash distributions received
2. Tax deferred amounts are generally only brought to account on the redemption of units in a trust. They are therefore subject to Capital Gains Tax (CGT) rather than Income tax. This may reduce the amount of tax an investor may otherwise have paid, depending on their marginal tax rate and individual circumstances
3. Individuals and trusts may be entitled to a 50% discount on any capital gains that are made if their investment is held for at least 12 months on capital account
4. Complying superannuation funds may be entitled to a 33.33% discount on capital gains if their investment is held for more than 12 months on capital account
5. For superannuation funds in an allocated pension phase, capital gains may be tax-free. Gains realised on investments held from the period prior to the allocated pension phase may also be tax-free.

Where can I view my tax deferred amounts?

The assessable and non-assessable components of distributions are disclosed in the Attribution managed investment trust member annual (AMMA) statement or annual tax statement. This statement is issued by Trilogy Funds each year to assist investors in preparing their annual income tax returns. We recommend keeping a record of all tax deferred amounts received to assist in the capital gain calculation on disposal of the asset.

Who do I speak to if I have received tax deferred amounts?

Trilogy Funds is not able to provide tax or financial advice and we recommend you seek an independent professional consultation about the taxation treatment of your investment when completing your tax return.

Find out more

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