

LIGHTHOUSE



TRUST BOOKLET

A simple guide to Trust structuring,
Taxation and common terms

In association with
Property Tax Returns



FOREWORD

Thank you for getting in touch with us about setting up a Trust.

Our goal is to offer you a timely and personal service so your Trust can be established quickly and accurately. Trusts are only effective if they are set up with your needs and financial goals in mind.

Trusts can be tailored to distribute assets however you may wish, minimise tax liabilities, and safeguard the future of your family.

We want to help you make informed decisions about creating a Trust. While you are reading this guide, please consider the following:

- Who do I want **involved** in this Trust?
- What **assets** do I want held by the Trust?
- What **technicalities** should I be aware of?
- Who do I want to **benefit**?

Once again, thank you for contacting Lighthouse Financial Services. When you are ready to begin the Trust creation process, or if you have any queries, please let us know.

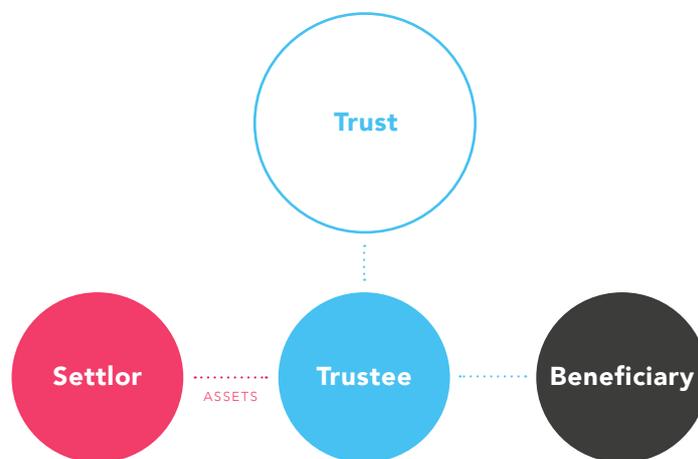
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AN INTRODUCTION TO TRUSTS

Trusts are popular and versatile structures with many benefits such as tax minimisation and asset protection. Most Trusts we establish are **Discretionary Trusts**, meaning that what each beneficiary receives is not fixed in the Trust Deed, but is at the discretion of the Trustees.

There are three key parties that are required to create a Trust:

The Settlor who transfers assets to **the Trustees** who administer the Trust for the benefit of **the Beneficiaries**.



Although a Trust is given a name and is often referred to as if it is a separate entity, it is not. A Trust is a relationship between the Trustees and the Beneficiaries which *imposes* duties on the Trustees to deal with the Trust property in the best interests of the beneficiaries.

THE DIFFERENT ROLES IN A TRUST

Settlor

The Settlor is the person or people who decide to create a Trust and make the initial transfer of property into Trust. This is commonly a token monetary amount, but can consist of any type of asset.

Appointer

The Appointer is usually the Settlor of the Trust. The power of appointment of the Trustees is where the ultimate power within a Trust lies.

The appointers can add or remove Trustees in order to control the Trust.

Trustee

The Trustees are the people tasked with administering the Trust for the benefit of the Beneficiaries.

A Settlor will usually be the Trustee of his or her own Trust and in some circumstances it would be advisable to have an unrelated Trustee who might be a family friend or professional.

A Trust must have a minimum of two individual Trustees or one Corporate Trustee.

Corporate Trustee

A Corporate Trustee is a Company which sole purpose is to act as the Trustee of a Trust. The Directors are the day to day managers. However, the shareholders have the power of appointment of the Director and must approve transactions. In this way, the shareholders act as Trustees of the Trust.

Essentially, the Corporate Trustee company will simply be the vehicle for the persons who would otherwise be the Trustees personally.

Benefits of a Corporate Trustee

1. Greater independence;
2. Individual's names do not appear on property titles;
3. Limited liability for the Trustees;
4. Trustees can be added and removed without amending property titles or lending documentation.

The use of a Corporate Trustee is a more flexible, forward thinking solution for Trust structures.

Beneficiaries

The Beneficiaries are the people who will benefit from the Trust. They can be either named individuals or a "class" of relatives such as children or grandchildren. There are generally two types of Beneficiaries: **Primary Beneficiaries** and **Discretionary Beneficiaries**.

Primary Beneficiaries are generally the Settlers. They are the individuals that benefit when the Trust is wound up and its assets are distributed.

Discretionary beneficiaries are different because they can receive discretionary payments from the Trust, during its lifetime. They are the individuals that do not have an automatic right to receive payment but they can be considered by the Trustees when it is time to make distributions from the Trust.

With a Discretionary Trust, you can add and remove beneficiaries at any time and choose who will be given a distribution in any given year.

TAXATION OF TRUSTS

Trustee Income

Any income retained in the Trust, is deemed to be Trustee income and will be liable to a Tax rate of 33 cents in the dollar.

Beneficiary Income

New Zealand resident beneficiaries

If you are a New Zealand resident you are liable for New Zealand income tax on all of your beneficiary income, from any source in the world. This will be taxable at your normal income tax rates.

Non-resident beneficiaries

If you are not a New Zealand resident for tax purposes, you only have to pay New Zealand income tax on trust income derived from New Zealand.

Rental income will be subject to New Zealand income tax at the normal rates. You should be able to claim a credit for this tax paid in your overseas tax return.

ADVANTAGES & DISADVANTAGES

Advantages

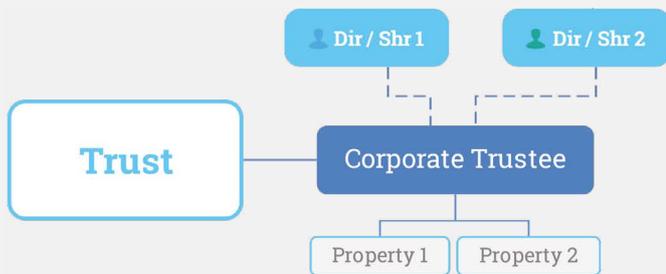
Trusts can distribute income to beneficiaries on the lowest possible tax rate to maximise tax efficiency. Trusts also provide excellent asset protection and estate planning benefits and Capital Gains can be distributed tax free.

Disadvantages

The only real weakness of a Trust structure is that losses cannot be distributed from a Trust. This makes them inappropriate for long-term, negatively geared property investments.

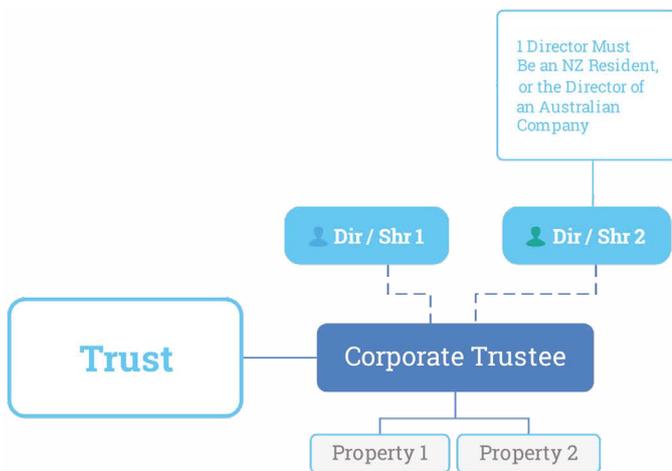
STRUCTURE DIAGRAMS

Below are some Trust structures set up by Lighthouse Financial Services.



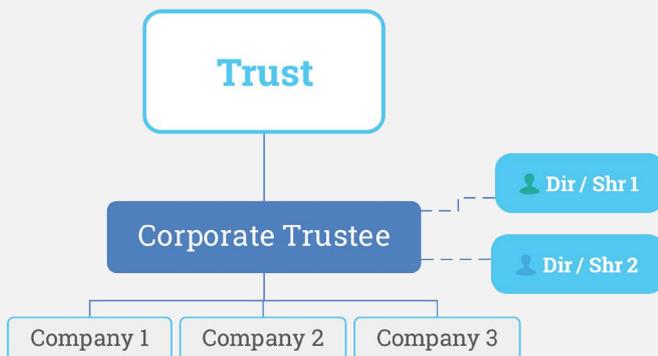
NZ Discretionary Trust

Commonly used for:
Holding positive cashflow
buy and hold properties.



NZ Foreign Trust

Commonly used for:
Holding positive cashflow
buy and hold properties
for offshore investors.



Business and Property Trust Structure

Commonly used for:
Business owners who also
invest in property.

CONTACT US

If you have any questions or would like to discuss any aspects of our services, please call **09 320 4947** or email **info@lighthousefinancial.co.nz**

Disclaimer:

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You must not rely on the information in the guide as an alternative to formal financial advice. If you have specific questions about any financial, taxation or accountancy matter you should consult Lighthouse Financial Services or another appropriately qualified professional.

Should you adopt this guide as a substitute for formal financial advice, Lighthouse Financial Services will not be liable to you in respect of any losses you may incur.