HOW TO USE A BUCKET COMPANY

Hypothetical scenario

AT A GLANCE

CHALLENGES

- Joe & Mary will be taxed at highest marginal tax rate of 47%
- Tax liability of $184,000

OUTCOME

- $200,000 now taxed at 25%
- $46,000 saving in tax liability
- $150,000 to invest

If you're paying more tax than you think you need to, it would be worth considering whether a bucket company is a good fit for you. With any tax saving strategy it is best to seek advice and get some tax planning completed. Reach out to the team at Day One Advisory if you need any assistance.

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SUMMARY

Assume there is a business called Joe's Plumbing which is operated by Joe's Family Trust. The beneficiaries of Joe's Family Trust are Joe and his partner Mary. Joe's Plumbing has had a good year and it's estimated that the business will have a profit for the year of $500k. Joe and Mary don't earn any other income.

CHALLENGE

If Joe's Family Trust distributed the $500k profit 50/50 to Joe and Mary they would each pay tax of approximately $92k on their share ($184k total tax).

SOLUTION

Instead, Joe incorporates a new company called Joe's Bucket Company Pty Ltd. Joe's Family Trust decides to distribute $150k to Joe and Mary and the remaining $200k to the new company. Joe and Mary will each pay ~$44k of tax and Joe's Bucket Company Pty Ltd will pay $50k (assuming it's eligible for the lower 25% tax rate). The total tax for the year is $138k.

OUTCOME

Outcome One
Comparing this to the first scenario where Joe and Mary get all the income, you can see there is a ~$46k tax saving by using the bucket company.

Outcome Two
At the end of the year, Joe's Family Trust pays the $150k to Joe and Mary and deposits $200k in the Joe's Bucket Company Pty Ltd bank account. After tax, Joe's Bucket Company Pty Ltd has $150k that can be invested.