Investments

An investment is an asset or item acquired with the goal of generating income or appreciation. Let's know about the **various investment instruments in Australia and income from investments.**



1. **Shares (Stocks):** Investing in shares means buying ownership in a company. Shares are traded on the stock market, and investors can buy and sell them to potentially profit from changes in their price or receive dividends as a share of company profits.

2. **Property:** Property investment involves purchasing residential or commercial properties with the aim of generating rental income and/or capital appreciation. Properties can be rented out to tenants, and investors may benefit from rental income and property value appreciation over time.

3. **Managed Funds:** Managed funds pool money from multiple investors to invest in a diversified portfolio of assets, such as shares, property, bonds, or cash. Professional fund managers make investment decisions on behalf of investors, and returns are typically distributed proportionally to investors.

4. **Exchange-Traded Funds (ETFs):** ETFs are investment funds traded on stock exchanges, similar to individual shares. ETFs typically track the performance of a specific index, commodity, or sector and offer investors exposure to a diversified portfolio of assets with lower costs compared to managed funds.

5. **Bonds:** Bonds are debt securities issued by governments or corporations to raise capital. Investors who purchase bonds lend money to the issuer in exchange for periodic interest payments (coupon payments) and the return of the principal investment at maturity.

Tax Implications for Australian Individuals:

1. **Capital Gains Tax (CGT):** Capital gains tax is applicable when individuals sell assets like shares, property, or ETFs for a profit. In Australia, capital gains are taxed at the individual's marginal tax rate, with a discount available for assets held for more than 12 months.

2. **Dividend Imputation System:** Australian residents may receive franked dividends from shares, which come with imputation credits (franking credits) attached. These credits represent tax already paid by the company, and shareholders can use them to offset their own tax liabilities on dividends.

Franking credits can be calculated as below.

((dividend amount ÷ (1 – company tax rate)) – dividend amount) x franking percentage.

Example 1:

ABC Ltd paid a franked dividend of $70. As an Australian-based company, ABC Ltd's company tax rate would be 30%. Using the above formula, we will calculate the franking credit amount as follows:

(($70 / (1 – 0.30)) – $70) = $30.

Example 2:

	Company
Tax Rate	30%
Profit Before Tax	$100
Tax (payable by Co to ATO)	($30)
Net Profit After Tax	$70
Gross Dividend	$100
Dividend - cash component	$70
Franking Credits (tax paid by Co on NPAT)	$30
	Person 1
	$30k income
Tax Rate	18.5%
Gross Dividend	$100
Tax Payable	$19
Franking Credits	$30
Tax Refund / (Payable)	$12

4. **Interest Income:** Interest earned from investments in bonds, savings accounts, or term deposits is taxed at the individual's marginal tax rate. However, certain fixed-term deposits may offer concessional tax rates for interest income.