The most important investment you can make is in yourself.
- Warren Buffett

TAX DEFERRAL ON PROPERTY TRUSTS (OVERVIEW)

Tax deferral is a significant benefit offered by Australian property trusts (REITs), providing investors with greater control over when they pay tax on certain distributions. This feature can enhance the after-tax returns of an investment and is particularly relevant for long-term investors.

When a trust distributes income, part of the distribution may be classified as "tax deferred." This portion is not immediately taxable but instead reduces the cost base of the investment for capital gains tax (CGT) purposes. When the asset is eventually sold, the deferred tax is paid through a higher capital gain.

Often investments in commercial real estate which including recently redeveloped or upgraded properties may have higher eligible depreciation expenses which may result in a higher portion of distributions being tax deferred.

Worked Example: Tax-Deferred vs. Non-Tax-Deferred Distributions

Scenario Parameters:

- Initial investment: $1.00
- Annual distribution yield: 8%
- Tax-deferred portion: 50% of the distribution
- Holding period: 10 years
- Sale price: $1.00
- Marginal tax rate: 45%
- CGT discount: 50%

Tax-Deferred Scenario

Annual Distribution:

Total distribution: $0.08 per year
- Taxable portion: $0.04 × 45% = $0.018
- Tax-deferred portion: $0.04 × 10 years = $0.40 (reduces cost base)

Total Tax on Income (10 Years):
- $0.018 × 10 = $0.18

At Sale:

Adjusted cost base: $1.00 − $0.40 = $0.60
Capital gain: $1.00 − $0.60 = $0.40
Taxable capital gain: $0.40 × 50% = $0.20
CGT: $0.20 × 45% = $0.09

Total Tax Paid:

$0.18 (on income) + $0.09 (CGT) = $0.27

No Tax Deferral Scenario

Annual Distribution:

Entire distribution taxable: $0.08 × 45% = $0.036 per year
Total tax on income (10 years): $0.036 × 10 = $0.36

At Sale:

No capital gain as cost base remains at $1.00.

Total Tax Paid: $0.36

Comparison

Tax-deferred scenario: $0.27
No tax deferral: $0.36

Tax Savings with Deferral: $0.36 − $0.27 = $0.09

Tax Savings as a percentage: 25%

Please note this is illustrative only and should not be treated as taxation or any other sort of advice.

ASA EDUCATION SERIES

Tax Deferral and the ASA Diversified Property Fund

The ASA Diversified Property Fund's portfolio includes two recently redeveloped shopping centres and two further service centres leased to Ampol which have recently undergone major capital works upgrades.

The Fund's distributions are currently approximately 70% tax deferred (December 2025).

Busselton Central Shopping Centre, WA
Coles, Redeveloped 2023

Blackburn Square Shopping Centre, VIC
Coles, Woolworths, ALDI Redeveloped 2023

Learn more and additional resources

If you'd like to learn more please take a look at our other Education Series publications and access additional resources here: www.asarep.com/hub

Please note

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