TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

The following information is only of a general nature and should not be taken as professional advice.

191 | Wrap and Managed Accounts

Wrap and managed accounts come with a tax statement at the end of the year.

Wrap and Managed Accounts

Most of your wealthy clients will hold some wrap and managed accounts. But how are wrap and managed accounts different? Where are they similar?

In search of an answer we asked Daniel Mikhail of Partners Wealth Group in Sydney for advice. Here is what we learned but please listen in as Daniel Mikhail explains all this much better than we ever could.

To listen while you drive, walk or work, just access the episode through a free podcast app on your mobile phone.

Asset Classes

In the end you always invest in one of the following:

1 – Cash (cash accounts, term deposits)
2 – Fixed Interest (corporate or government debt)
3 – Shares (domestic or international, listed or unlisted)
4 – Property (commercial or residential)
5 – Commodities (eg. gold, copper, oil)
6 – Currency (foreign)
7 – Derivatives (eg. options, futures, swaps)
8 – Anything else

Whether you invest directly or through a wrap or managed account or managed fund, you can always drill your investments down to these asset classes.

Direct Investment

When you buy assets directly – without using wrap or managed accounts or managed funds – you act in your own name and are limited in size to what you can invest in. At tax time, you work out what your tax position is. There is no tax statement.

Managed Funds

Managed funds are unit trusts that invest in various assets. You can invest in these managed funds by acquiring units of this fund. At tax time, the managed fund will send you a tax statement that covers your portion of the managed fund's tax position.

You can invest in managed funds ("mFunds") without using a wrap or managed account. Some platforms like CommSec don't do mFunds, but others like NAB Trade do. When you invest directly into an mFund without going through a wrap or managed account, then you buy these mFunds as – what some call – 'Retail'.

Your decision is whether you want to invest in a particular mFund or not. But you don't have any decision in what the actual fund then invests in. It is the fund managers who make that decision.

Wrap Accounts

In a wrap account you still acquire the assets in your name, but you go through a wrap account provider. The provider tracks what you are doing and sends you a tax statement at the end of the year. You get a lot more reporting through a wrap account than if you invested directly.

In a wrap account you still make the investment decisions. You might have a financial adviser on the side, but they have to follow your instructions and have to give you a statement of advice each time they act on your behalf. This takes time and hence is reflected in higher fees.

Managed Accounts

A managed account still goes through a wrap account provider, but now you have a manager who invests your capital on your behalf. Your decision is to invest. But the manager of the managed account decides how to invest it. That allows the manager to move much quicker when changing the portfolio.

At the end of the year you receive a report that covers the managed account in total. It will show the underlying holdings that make up the managed account's total portfolio. You then hold a percentage of that account.

Some advisers use Macquarie, Hub24 or Netwealth to run these managed accounts, but there are also other providers.

MORE

SMSF Corporate Trustees

Taxable Importations

Tax Effective Structuring

***Disclaimer**: Tax Talks does not provide financial or tax advice. All information on Tax Talks is of a general nature only and might no longer be up to date or correct. You should seek professional accredited tax and financial advice when considering whether the information is suitable to your or your client's circumstances.*

The information above is for general information only and should not be taken as constituting professional advice from Tax Talks. We are not a financial, legal or tax adviser. You should consider seeking independent legal, financial, taxation or other advice to check how the above information relates to your unique circumstances.