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Insurance (Investment) Bonds

An investment bond is technically a life insurance policy, so you need to nominate a life to be insured and a beneficiary. It is a long-term investment vehicle with features similar to a managed fund combined with an insurance policy.

Your money is pooled with money from other investors and a portion of the pooled funds is then invested in the investment options each investor chooses.

Investment bonds may be tax effective for long term investors with a marginal tax rate higher than 30% when compared to holding investments in their own name.

How is my money invested?

Most investment bonds offer investment options such as cash, fixed interest, shares, property, infrastructure or a range of diversified investment options, with risk levels ranging from low risk to high risk.

The value of the investment bond will rise or fall with the performance of the underlying investments.

You can choose how your money will be invested based on your individual investment preference.

Insurance bonds are available through a number of different companies, each offering unique investment strategies.

Insurance bond tax treatment

One of the advantages of an insurance bond is that investment earnings do not have to be declared in your tax return unless you make a withdrawal in the first 10 years.

If you do withdraw within the first 10 years, tax may be payable depending on how long you have held the investment bond and the amount of earnings it has derived over this time – as outlined in the following table.

Year in which withdrawal made	Tax paid on earnings by the investor
Within 8 years	• Earnings are taxed at your marginal tax rate, with a 30% tax offset
During the 9th year	• 2/3rds of the earnings are taxed at your marginal tax rate, with a 30% tax offset
During the 10th year	• 1/3rd of the earnings are taxed at your marginal tax rate, with a 30% tax offset
After 10 years	• Earnings are not taxed

This document provides general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. This information does not take into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, you need to consider (with or without the assistance of an adviser) whether this information is appropriate to your needs, objectives and circumstances.

It should be noted however that the life office pays tax on the investment earnings internally at the company rate of 30 per cent – on both income and capital gains. This is the reason insurance bonds are often referred to as 'tax-paid investments'.

Further, like an insurance policy, you nominate a life insured and a beneficiary. If the life insured dies, the full value of the bond is paid out tax free.

Ongoing investment

You invest into an insurance bond with a single lump sum. The date of the initial deposit starts the "10-year period'.

You are allowed to make further deposits into the bond, but they may affect your 10-year start date. That is:

- If the amount you deposit in a year is less than 125 per cent of the amount you deposited in the previous year, it will be treated as part of your initial deposit for the purpose of the 10-year period.
- If your deposit exceeds 125 per cent of the previous year's deposit, a new 10-year period will apply to that amount.

Benefits of insurance bonds

- Tax-effective investing
  - Potentially tax effective for people in higher marginal tax brackets (over 30 per cent).
  - A way to defer personal tax to future years.
- Investing for the future e.g. saving for children's future education costs.
- Estate planning tool.

Investing for children

The government applies a higher tax rate to minors to discourage adults from transferring assets to their children's name to reduce tax.

Investing in an insurance bond in a child's name can be an attractive way to avoid these penalty taxes.

This is because, as discussed above, investment earnings on the bond are taxed internally at 30% and do not have to be declared in the child's annual tax return. After 10 years, no personal income tax will be payable on any proceeds from the insurance bond.

This feature of insurance bonds makes them a great way for high income earners to save tax while saving for the future.

If this sounds like something you need to explore, or review what you already have, please feel free to fill in the form here: https://www.fasttrackwealth.com.au/contact-us/

Or contact Adam on 07 3263 4123

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