Have you introduced your clients to investment bonds to reduce distributable income from trusts?

THE SITUATION

Meet Dr Johnson.
Successful medical specialist and grandfather. Dr Johnson distributes income via the Johnson family trust to manage tax and split income across family members and corporate beneficiaries. Dr Johnson is looking for a way to effectively decrease distributable income generated by the trust and the tax beneficiaries pay.

THE INVESTMENT BOND SOLUTION

The Johnson family trust can reduce its level of annual distributable income to $195,000 with an investment bond, reducing it by $130,000. After 10 years, the beneficiaries can receive income tax paid regardless of their marginal tax rate or age.

$5m
Family trust

$2m
Investment bond within family trust

6.5%
Average yield

$130k
Reduction in annual distributable trust income

THE CASE STUDY

Without an investment bond	
Cash & term deposits	$700,000
Direct property	$1,200,000
Shares	$2,200,000
Managed funds	$900,000
Total	**$5,000,000**
Average yield	6.5%
Annual distributable income	**$325,000**

With an investment bond	
Cash & term deposits	$300,000
Direct property	$1,200,000
Shares	$1,200,000
Managed funds	$300,000
Investment bonds	**$2,000,000**
Total	**$5,000,000**
Average yield	6.5%
Annual distributable income	**$195,000**

A discretionary or family trust can be an effective way to manage wealth, however with a trust brings a level of complexity.

- Unlike other investments such as shares, managed funds and term deposits, investment bonds do not distribute taxable income or realised gains unless a withdrawal is made within the first 10 years.
- Having a discretionary or family trust invest in an investment bond can reduce (or eliminate if fully invested) the level of distributable income.
- After 10 years, any proceeds from a withdrawal from an investment bond paid to beneficiaries will be tax free, regardless of their individual marginal tax rate.
- Family or discretionary trusts that have excess distributable income may choose to distribute to corporate beneficiary structures (commonly referred to as bucket companies) in order to avoid paying the top marginal tax rate applicable to undistributed trust earnings. However, this strategy only defers the payment of tax, as tax will eventually be paid on company dividends.

What does this mean for your clients?

Whilst a trust remains fully invested in investment bonds, there is no annual income for the trust to distribute. This eliminates the need for a corporate beneficiary or the punitive levels of tax on undistributed income for the trust. On the death of the life insured under the terms of the investment bond the proceeds are distributed tax free.

Find out how Generation Life's investment bonds can help you simplify and manage your client's distributable income from trusts today.

generation life

Outthinking today.

Generation Life is Australia's leading investment bond provider.[1]
We have been providing Australians with tax-effective, flexible investment solutions since 2004.

Get in touch with Generation Life

To find out more visit www.genlife.com.au. Alternatively contact your local Distribution Manager or our Adviser Services team on:

Phone 1800 333 657

Email enquiry@genlife.com.au

1. Source: Investment Bonds Report – Plan for Life Actuaries and Researchers – 31 March 2021