

Tax-aware investing



**Generation Life
CEO Grant
Hackett says
investment
bonds can help
you avoid losing
earnings to tax.**

Investment bonds to ease bracket creep

The proportion of workers in the top marginal tax bracket continues to grow, causing more to explore their investment options to mitigate the effect of bracket creep.

Australian Taxation Office figures show 5 per cent of individuals in the 2021-22 financial year earned \$180,001 or more, up from 3 per cent in 2016-17. Compared to the previous financial year, 24 per cent more people moved into the top marginal tax bracket, the figures show.

While changes from this financial year increased the top income threshold by \$10,000, annual wage rises may soon wipe out the difference. The Australian Bureau of Statistics reports wage growth of 4.1 per cent in the year to June.

Generation Life chief executive Grant Hackett says bracket creep has been concerning for many years, particularly because marginal tax rate tiers are not automatically indexed to keep up with inflation and wages growth.

"Individuals aged between 35 to 44, in particular, may reach the top 47 per cent marginal tax rate including Medicare levy sooner than they expected," he says.

"If they're in their 30s and doing really well, they're ambitious, they're going to move through the various tiers of taxation as they work for the next 25-35 years and most likely find themselves on the highest marginal tax rate.

"For people who want to invest outside of their own home and their super, if they're on the border of moving to the next tier, that additional income from that investment might push them over to the next tax bracket. Then on those earnings, they are losing almost half to tax."

The number of high-net-worth investors also is expected to continue to climb, with their investment income taxed at the highest marginal tax bracket of 45 cents for every dollar over \$190,000 under the new structure.

For them, tax-paid structures such as investment bonds can help close the gap between headline returns and after-tax returns, by reducing the impact of bracket creep. They also boost the consumable returns they keep.

An investment bond can provide several tax benefits including lower tax incurred, which leads to higher after-tax outcomes.

Generation Life is a market leader in tax-effective investing and is at the forefront of innovating the tax-effective investing landscape.

It has developed a tax-aware approach to investing to deliver improved after-tax returns, with long-term effective tax rates of 10-15 per cent for many growth-oriented investments.

Investment bonds are internally taxed at a maximum rate of 30 per cent, rather than at the investor's personal marginal tax rate.

However, through the unique tax structure, optimisation can lower the effective tax paid.

"Investors may be familiar with tax structures like superannuation, where the investment is taxed within the superannuation environment," Hackett says.

"When it comes to investment bonds, the investment is incubated in the investment bond structure and the earnings, the growth, stays within the investment bond tax environment.

"So it's not adding to taxable income, it's not pushing them up to the next tax tier."

"Investment bonds [have] a very simple and easy structure that comes with significant tax benefits and estate planning features."

Grant Hackett

Hackett says misconceptions about investment bonds and a rise in the prominence of other investment structures has seen the popularity of investment bonds decline since the 1990s. However, the ASX *Australian Investor Study* reveals an increase in the proportion of investors who hold them, from 4 per cent in 2020 to 6 per cent in 2023.

"When it comes to investment bonds, you have to be a life company or a friendly society to be able to issue an investment bond," Hackett says. "There are not too many providers that issue investment bonds. Their popularity over the last six years has certainly gone up as we continue to innovate and educate financial advisers."

Investment bonds are like other investment structures that must adhere to certain taxation rules and are governed by legislation.

Superannuation funds accept small contributions for investment, and investment

bonds can be acquired from as little as \$1000. In superannuation, funds remain unavailable until preservation age, while investment bonds enable investors to access their funds at any time.

In addition, investment bonds can be set up to aid many major life expenses, such as a child's school fees, a house deposit or an early transition to retirement.

"It's also good for people who want to help their kids out in the future but don't want to put something in their child's name because they are subject to minor tax, which is extremely penal," Hackett says. "Also, when you're making an investment, a lot of investment products can distribute income even though you don't necessarily need the income.

"Investors don't necessarily want to add to their assessable income because they're already making good money, so receiving income they don't necessarily want isn't ideal."

An investment bond enables investors to control when they want to receive funds from it, so they are not forced to take assessable income if they do not want to.

Hackett says investment bonds are also very easy to set up and have a range of innovative features to meet an individual's ever-changing circumstances, as goals change over time.

"Unlike investment bonds of the past, our new generation of investment bonds can be a set-and-forget solution but also give you the option to manage and update," he says. "Once you actually understand it, it's a very simple and easy structure that comes with significant tax benefits and estate planning features."



Reduce the impact of bracket creep
Discover the power of Generation Life's
Investment Bonds.

Find out more at [genlife.com.au](https://www.genlife.com.au)

Outthinking today.