

You asked... we answered.

Post session & Q&As Document



Question 1

“Is your tax optimised rate of 10-15% because of franking credits or other reasons?”

Answer:

The estimated long-term effective tax rates quoted are based on the tax management process that Generation Life employs in managing the tax positions of the various investment options.

Part of this is due to managing and obtaining the benefit of franking credits, however, our process also involves managing the tax trading arrangements to reduce the level of assessable income that would be taxed.

Question 2

“Tax free transfers, can this be from person A to an unrelated person B?”

Answer:

Investment bonds are able to be transferred to any person or entity, whether related or not. The transfer occurs without any capital gains tax (CGT) event provided the transfer is undertaken for nil consideration.

Question 3

“If a client invests in a tax effective investment option with 10-15% tax and withdraws at year 2, do they still get the 30% tax offset on the withdrawal?”

Answer:

Yes. Fixed under the tax legislation, the 30% tax offset is calculated based on the taxable component of the withdrawal made. The tax offset is automatically calculated by the ATO. This is independent of the level of tax actually paid within the investment bond itself. The tax offset can be used by the investor to the extent that they have a tax liability.

Question 4

“Can an investment bond be setup after death when a Testamentary Trust is in place?”

Answer:

A Generation Life investment bond can be established and held by any form of trust arrangement, including a testamentary trust, family trust, fixed trust or an estate itself.

Question 5

“Please explain the investor protection piece when a investor invests in an investment bond structure.”

Answer:

If an investment bond is owned by an individual and the investor or their spouse (including de facto spouse) are nominated as a life insured, the investment will receive protection from creditors in the case of bankruptcy (provided the intention wasn't to defeat creditors).

This protection under the Bankruptcy Act 1966 (Section 116) applies to the investment bond itself as well as any proceeds from the investment bond received on or after the date of bankruptcy. There is no cap or limit on the value of the investment bond that is protected.

Question 6

“How could the proposed trust taxation reforms affect wealth structures?”

Answer:

The proposed changes to the taxation of discretionary trusts could significantly affect how Australian families and business owners manage investments and income. If introduced, a minimum 30% tax on distributions to beneficiaries would reduce one of the key advantages traditionally associated with discretionary trusts - the ability to distribute income across beneficiaries in different tax brackets.

As a result, many investors could possibly benefit from considering a broader mix of investment structures that may provide tax efficiency, simplicity and long-term certainty. Alongside superannuation and traditional investments such as shares and property, investment bonds can play an important role as a tax-effective, long-term wealth accumulation solution that is not reliant on income distribution strategies to create tax-effective outcomes.

Question 7

“After 10 years, what are the tax obligations for an Investment Bond?”

Answer:

There are no further tax obligations after 10 years on any withdrawals from an investment bond provided that the 10 year period is not reset (by a contribution which exceeds 125% of the previous investment year's contributions).

Question 8

“If a trust owns an investment bond and the investment bond is held for more than 10 years, can the proceeds be distributed to beneficiaries without any additional tax liability?”

Answer:

Yes, once an investment is held for 10 years or more (without reset), there is no tax assessable amounts for a trust to declare.

The proposed changes imply that only assessable income will be taxable under the proposed discretionary trust arrangements. The objective is for there to be less focus on the use of testamentary trusts for income splitting and more focus on non-tax driven needs.

Alternative structures may be considered including investment bonds which provide a simple accumulation and distribution solution where tax is paid within the structure with the benefit of tax offsets.

There are also no annual distributions issues to contend with, as the distribution experience from an investment bond (through withdrawals) can be controlled by the trustee. Alternatively, the estate may wish to continue and hold the investment bond directly.

Question 9

“How does this affect investment bonds held within discretionary trust in terms of tax?”

Answer:

An investment bond can continue to be held within a discretionary trust. Based on the releases with the Budget, the only likely difference will be that the trust will pay tax at 30% on any taxable income from pre-10 year withdrawals.

While specific details have not been provided on the mechanics, it is expected that the 30% tax offset would be applied at the discretionary trust level. Resulting in a net zero tax liability to the trust. The final position will depend on any approved legislation.

Question 10

“What are the risks of the Government changing legislation around insurance bonds in the future?”

Answer:

Whilst there are no absolute guarantees in life, history shows that investment bonds legislation has not materially changed since the 2001/2002 financial year, when the tax rate was aligned to the corporate tax rate of 30%.

Separately, based on the Budget announcements can be said to evidence that the Government is seeking to set a base level tax rate applicable to most tax-payers, of 30%. This is the rate at which investment bonds are already taxed.

Question 11

“Can you explain the tax treatment of investment option switches within an investment bond? Specifically, while no personal CGT event arises for the investor, how are any realised capital gains treated within the bond?”

Answer:

While there are no personal CGT consequences at the investor level when switching between investment options, tax on realised capital gains is incurred by an investment bond.

In the case of Generation Life investment bonds, we look to manage the impact of this through our Tax Aware process to reduce the level of overall taxable income that the investment bond is taxed on.

Separately, based on the Budget announcements can be said to evidence that the Government is seeking to set a base level tax rate applicable to most tax-payers, of 30%. This is the rate at which investment bonds are already taxed.

We're here to help

If you have any questions or would like to discuss the use of Generation Life's Investment Bonds in your clients' financial portfolios, please don't hesitate to get in touch.



Simply scan the QR code to
talk to our Distribution Manager



Outthinking today.

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