Centuria

When superannuation is not enough

A Centuria Investment Bond is a tax effective and flexible investment platform that may be considered by investors who are looking for alternatives to superannuation

Superannuation

Superannuation can be a tax effective way to invest for retirement. The maximum tax payable on superannuation is 15% compared to the highest personal marginal tax rate of 47%.

There may be some limits and constraints with superannuation and some investors may look for investments that complement their superannuation investment strategy. An alternative tax effective structure such as an investment bond, (also known as 'insurance bond') can be sued to complement superannuation.

Constraints of superannuation

1. Limited contributions

To contribute to superannuation an investor needs to meet eligibility rules. This requires the investor to be under the age 65 or if aged 65-7, they need to meet a work test. If eligible, contribution caps will limit the amount of contributions that can be made to superannuation.

Concessional contributions

Contributions from an employer (also known as concessional contributions) for which a personal tax deduction can be claimed cannot exceed $25,000 in a financial year.

Concessional contributions are capped at $25,000 per financial year. This means the total of your employer and salary sacrificed contributions must not be more than $25,000 each year.

Non -Concessional contributions

After tax contributions to superannuation (also known as on concessional (after tax) contributions) include:

- personal contributions for which you do not claim an income tax deduction, and
- spouse contributions. If you have more than one super fund, all non concessional contributions made to all of your funds are added together and counted towards the non concessional contributions cap.

The annual non concessional contribution cap is $100,000 per year and is available to individuals aged between 65 and 74 years old if they meet the work test eligibility rules.

The non concessional contributions cap is set at four times the concessional contributions cap ($25,000 for 2017–18) and will increase in line with the indexation of the concessional contributions caps.

Non concessional contributions cap will be nil for a financial year if you have a total superannuation balance greater than or equal to the general transfer balance cap ($1.6 million for 2017–18) at the end of 30 June of the previous financial year. In this case, if you make non concessional contributions in that year, they will be excess non concessional contributions.

What is your 'total superannuation balance'?

Your total superannuation balance is made up of the balance of all of your super and retirement savings accounts. This is reduced by the sum of any personal injury structured settlement amounts contributed to super.

If you have a total superannuation balance that is:

- over the general transfer balance cap at the end of 30 June of the previous financial year, you won't be able to make any further non concessional contributions in the financial year (without exceeding your non concessional contributions cap)
- less than the general transfer balance cap at the end of 30 June of the previous financial year, you may make after tax contributions but your total superannuation balance will determine how much you can make.

Superannuation and individuals with income and concessional super contributions greater than $250,0000 - Division 293 assessment.

From 1 July 2017, the government lowered the Division 293 income threshold from $300,000 to $250,000. An individual with income, and concessional super contributions, exceeding the $250,000 threshold will have an additional 15% tax imposed on the lesser of:

- the excess, or
- the concessional contributions (except excess contributions).

2. Access restrictions

Superannuation receives tax concessions, but in exchange, access to money is restricted until a "condition of release" is met. This generally means that the investor will not be able to withdraw or use the money until they have reached "preservation age" and have retired.

Preservation age is 55 for an investor born before 1 July 1960 but increases up to age 60 for those born after this date. In some cases, such as permanent disability, earlier access may be allowed.

Tip

With tax at only 30%, investment bonds offer a tax effective savings option for high income earners, especially if the money can be left invested for at least 10 years.

The benefits of an Investment Bond

Investment bonds offer a number of benefits and may supplement an investment in superannuation. These benefits are summarised in the table on the next page:

1. An alternative tax effective structure

Like superannuation, tax is paid within the investment bond rather than personally by the investor. The maximum tax paid on the earnings and capital gains within an investment bond is 30% although franking credits and tax deductions can reduce this effective tax rate. This makes them an attractive investment option for high income earners.

A key feature of investment bonds is that if the investment is redeemed after 10 years, no personal tax is paid by the investor. However, if the investment is redeemed within the first 10 years, the investor will pay tax on the assessable portion of growth as shown in the table below.

Withdrawal occurs	Taxable portion (of growth withdrawn)
Within first 8 years	100%
In year 9	Two-thirds
In year 10	One-third
After 10 years	Nil

The investor receives a 30% tax offset to reduce the tax payable on the taxable amount.

2. No limit on the investment amount

There is no limit on the amount that can be invested in an investment bond in the first year and you can invest up to 125% of the previous years contribution each year thereafter.

3. Flexibility

Investment bonds provide the flexibility to access money at any time which can act as a hedge against the restricted access for superannuation.

4. Tax simplicity

Investment bonds provide simplicity as earnings are automatically reinvested in the bond and tax is paid within the bond. This means that income and capital gains do not need to be tracked and included in the investor's personal tax returns. Investors can also switch between investment options without triggering capital gains tax.

5. Estate planning flexibility

Death benefit payments from an investment bond provide flexibility and control.

The death benefits from an investment bond can be directed to a nominated beneficiary or the estate tax free regardless of who receives the benefit or how long the investment has been held. This flexibility may reduce the risk of disputes over estates and enable the benefits to be paid more quickly.

The death benefit from an investment bond is paid tax-free to the beneficiary.

6. Bankruptcy protection

Investment bonds may offer protection from creditors in the case of bankruptcy, although strict rules apply.

If you would like more information about supplementing your superannuation call 1300 50 50 50

Start investing today.

Simple | Flexible | Versatile

For more information contact Centuria on 1300 50 50 50 or visit www.centuria.com.au/investment-bonds to download the PDS.

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