



**BELLWETHER**  
WEALTH STRATEGISTS  
INVESTMENT • RETIREMENT • INSURANCE



## March 2018

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss Australians revealing their priority goals and provide you with information on the new legislation aims to benefit first home buys and downsizers and the pros and cons of investment bonds.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us on 08 7123 2939

In the meantime we hope you enjoy the read.

All the best,  
The Team at Bellwether Wealth Strategists

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# The pros and cons of investment bonds

Also called insurance or growth bonds, investment bonds can be a tax-effective way to save for something big.

If you're saving for a particular goal, looking for an alternative to super, or want to ensure those who matter most are taken care of after you're gone, investment bonds (also known as insurance or growth bonds) may have benefits while potentially reducing what you pay in tax.

## What are investment bonds?

Investment bonds are a type of investment-savings plan, and because earnings are taxed within the bond at 30%, they're considered 'tax-paid' investments.

This means you don't have to worry about including the earnings you've made at tax time, and if you pay a higher rate of tax on your income, they could be a tax-effective way to invest and save.

Investment bonds often suit long-term investors because they're typically designed to be held for at least 10 years, and while you could access your money before that, there could be tax implications.

## What are they used for?

Investment bonds can be used for many things, such as saving for something big. This could include your retirement if you can't contribute to super—you may have exceeded your contribution cap.

You might even use it to save for a child's future or education, with the ability to transfer the policy to the child, at a certain age, often possible.

Another feature of an investment bond is the ability to nominate beneficiaries, who'll receive the proceeds of the investment bond, tax free, should you pass away.

This is why some people see investment bonds as a type of life insurance policy and why some people may refer to them as insurance bonds.

## How are they taxed?

If you hold onto an investment bond for at least 10 years, you won't have to pay additional tax at tax time on any profit that you've made.

That's because investment bonds are 'tax-paid' investments, where earnings are taxed within the bond along the way at 30%.

If you're paying substantially more than 30% in income tax, an investment bond may be a tax-effective structure, but if you're paying 30%, or less, an investment bond mightn't be tax effective at all.

## Tax implications

If you decide to make a withdrawal within the first 10 years, some or all of the profit you make upon withdrawal will be taxed at your income tax rate, on top of the tax paid within the bond.

Because your earnings have already been taxed at the 30% tax rate within the bond, you will however receive a 30% tax offset to reduce the amount of tax you are required to pay.

As such, the tax effectiveness of an early withdrawal will depend on your income tax rate at the time of the withdrawal.

Another thing to note is if the amount you contribute in a particular year exceeds 125% of what you put in the year prior, the start date of the 10-year period will be reset.

## How is money invested?

With an investment bond, your money is pooled with money from other investors and a portion is then invested in the investment options each investor chooses.

Investment options will vary in terms of risk, and may include things like cash, fixed interest, shares, property, infrastructure, or a range of diversified investment options.

Choosing suitable investment options will often come down to your goals and risk appetite, keeping in mind the value of the investment bond can rise or fall depending on investment performance.

## More information

It's important to think about your goals and circumstances before deciding whether an investment bond is right for you. We can help you to understand the risks, costs and anything else that might be worth weighing up.

### The potential advantages

- If you're a high-income earner, it may be a tax-effective way to save over the long term
- Money can be withdrawn from the investment bond at any time
- Any growth or income earned will not need to be included in your annual tax return, as investment bonds aren't subject to personal tax assessment until you make a withdrawal
- If no withdrawals are made in the first 10 years, any profit on a withdrawal made generally won't incur tax, as earnings are taxed within the bond along the way
- They often offer a range of investment options to cater for different goals and risk appetites
- They may be useful for people who are unable to contribute to super
- They can be an effective way to save for a child's future, including education
- You can name who you want the proceeds to go to after you're gone, tax free.

### The potential disadvantages

- Any income or capital gains that are derived are taxed within the bond at up to 30%
- While money can be withdrawn at any time, if it's within 10 years, some or all of the profit on your withdrawal will be taxed at your income tax rate (albeit with a 30% tax offset)
- If you contribute more than 125% of your previous year's contribution, the 10-year investment period will begin again
- Some investment bonds have minimum balances that must be maintained, so check out individual product documents for details
- Investment bonds charge fees which can vary depending on the provider and options
- If you want to access money in the investment bond, this may take more time than if you're extracting money from a different type of investment
- An investment manager will be making the day-to-day investment decisions, meaning you won't have direct control over the decisions made.



# New legislation aims to benefit first home buyers and downsizers

Changes aimed at improving housing affordability have passed through parliament. See what the new rules could mean for you.

Government proposals around improving housing affordability in Australia were passed through parliament on 7 December 2017.<sup>i</sup>

As part of the changes, first home buyers will be given a tax concession through the ability to save for a home deposit inside super, while Australians aged 65 and over will be able to contribute the proceeds from the sale of their family home into super.

We take a look at what the changes could mean for you, bearing in mind that like with all important financial decisions, it's a good idea to get financial advice before deciding what's right for you.

## Tax concession for first home buyers

From 1 July 2018, eligible first home buyers will be able to withdraw voluntary super contributions (which they've made since 1 July 2017), along with associated investment earnings, to put toward a home deposit.

### How does it work?

Under the First Home Super Saver Scheme (FHSSS), first home buyers who make voluntary contributions of up to \$15,000 per year into their super can withdraw these amounts, in addition to associated earnings, from their super fund to help with a deposit on their first home.

If eligible, the maximum amount of contributions that can be withdrawn under the scheme is \$30,000 for individuals or \$60,000 for couples.

Voluntary contributions can be made by salary sacrificing from before-tax income, by making personal tax-deductible

contributions, or by making personal after-tax super contributions.

When the money is withdrawn, before-tax and tax-deductible contributions are taxed at your marginal tax rate, less a 30% tax offset, while after-tax contributions aren't subject to tax.

Due to the favourable tax treatment, generally available through super, this scheme intends to help first home buyers grow their deposit more quickly.

### Things to note

To make a withdrawal under the scheme, an application to the Australian Taxation Office will be required, and an eligible person is only allowed one FHSSS withdrawal in their lifetime.

There are super contributions which will not qualify and cannot be withdrawn under the scheme, such as super guarantee contributions made by your employer, as well as spouse contributions.

FHSSS amounts that are withdrawn and not subsequently used for a property purchase must be put back into super as after-tax contributions, or penalties will apply.

The first home buyer must reside at the property for at least six months in the first 12-month period from when it can be occupied.

Additional rules may apply to your situation, so make sure you do your research and speak to us before making any decisions.

## Super benefits for downsizers

Currently, people aged between 65 and 75 who want to make voluntary super contributions must satisfy a work test, and people over 75 are generally unable to contribute to their super.

From 1 July 2018 that will change. People aged 65 or over will be able to make an after-tax contribution to their super of up to \$300,000 using proceeds from the sale

of their family home – regardless of their work status, superannuation balance, or contribution history.

Both members of a couple will be able to take advantage of this proposal, meaning up to \$600,000 per couple can be contributed toward super.

### How does it work?

Proceeds from the sale of the family home that are contributed into super as part of this initiative can be made in addition to any other before-tax or after-tax contributions you're eligible to make.

The government said the aim is to encourage older Australians, where appropriate, to free up homes that no longer meet their needs and make room for younger growing families.<sup>i</sup>

### Things to note

To qualify, the property sold needs to have been your (or your spouse's) main place of residence for at least 10 years.

'Downsizing' contributions are not tax deductible and can be made regardless of super caps and restrictions that otherwise apply when making super contributions.

The property that is sold must be in Australia and doesn't include caravans, mobile homes, or houseboats.

No special Centrelink means test exemptions apply to the downsizing contribution. Due to this, there may be means testing implications as a result of downsizing, which will need to be carefully considered.

Meanwhile, additional rules may apply to your situation and as you are also making a big financial decision, which could have implications, it's worth doing your research and speaking to us first.

<sup>i</sup> Turnbull Government delivers leg-up for first home buyers and downsizers press release





# Australians reveal their priority goals

Most Australians indicate their biggest life goal is a financial one, but many admit failing to plan is a roadblock.

Increased household debt, record-high property prices and the aftermath of the global financial crisis have not impeded Australians' belief in their ability to achieve their goals.

In fact, an August 2016 research paper by The Financial Planning Association of Australia and McCrindle, showed four in five Australians were confident they could turn their goals into a reality.<sup>i</sup>

We take a look at the achievements, aspirations and roadblocks that topped people's lists.

## Key achievements

The FPA and McCrindle study, which compiled responses from more than 1,000 people, aged 20 to 65, revealed Australians' key achievements across generations.

Check out the table below<sup>i</sup> to see how your own achievements fare.

## Popular dreams and aspirations

Interestingly, nearly half of all Australians said they dreamed about the future every few weeks, with people's major life goals including things such as:<sup>i</sup>

- 1. Full financial freedom and independence – 59%
- 2. Having the lifestyle of their choice – 58%
- 3. Being able to pursue interests and hobbies – 50%
- 4. Having more free time to spend with loved ones – 43%
- 5. Having a family – 19%.

## The obstacles holding people back

Despite many Australians feeling motivated by their abilities and dreams, there are things people acknowledge hold them back, like:<sup>i</sup>

- Having no plans (or only vague plans) for the road ahead – 63%

- Concentrating mainly on the present and short term – 61%
- People not believing in their ability to create the life they want – 18%
- Feeling too busy to dream about future possibilities – 13%.

Other factors people grapple with include regrets that they could have saved more (47%), spent less (34%) and invested more (27%).

## How to get on track to achieving your goals

We can assist you to start mapping out your goals – whether it be saving for something big, buying a property, setting up your kids for the future, or something else. Exploring and planning is the first step and we can also help you take the next step to achieving your goals.

<sup>i</sup> FPA Dare to Dream - Research into Australia's Financial Hopes and Fears  
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Generation Y	Generation X	Baby boomers
Travelling overseas – 39%	Buying a home – 42%	Travelling overseas – 46%
Buying a home – 28%	Travelling overseas – 36%	Buying a home – 42%
Becoming financially independent – 16%	Buying an investment property – 15%	Building a new home – 17%
Living overseas – 14%	Living overseas – 11%	Being financially ready for retirement – 16%
Paying off a wedding – 13%	Buying sport/hobby equipment – 9%	Starting a business – 14%