

# What is an investment bond?

**An investment bond is a managed investment, usually operated by an insurance company or friendly society, where your money is pooled with money from other investors and invested in the investment options each investor chooses.**

**Most modern investment bonds offer a broad range of investment options such as cash, fixed interest, shares, and property, or a range of diversified investment options. The value of each investor's bond rises or falls with the performance of the underlying investments.**

## An investment bond is known as a 'tax paid' investment

Earnings on the underlying investments are received by the insurance company or friendly society and taxed at the corporate tax rate (currently 30%) before being reinvested in the bond. This means that insurance bonds can be a tax effective investment for investors with a marginal tax rate higher than 30%.

If the bond is held for at least 10 years the returns on the investment will be tax free in the investor's hands.

## Benefits of an investment bond

- Tax effective if your marginal tax rate is higher than 30% (i.e. \$37,000 taxable income each year)
- All returns from the investment while invested, and upon withdrawal after the ten year tax period, do not need to be included in your personal income tax returns
- Not impacted by the ever-changing superannuation rules
- Helps to provide certainty for your estate planning because you can nominate a beneficiary to directly receive the money if you were to die (that is, it would bypass your estate)
- Wide range of investment choices within the bond
- You can switch between the available investment options without any personal capital gains tax consequences

If you make a withdrawal within 10 years from inception, how much of that withdrawal is assessable for tax will depend on which year you make the withdrawal. See Table 1 for more information.

## How the 125% rule works

Investors should make additional contributions to their investment bond each year to optimise the benefits. Importantly, as long as the contribution does not exceed 125% of the previous year's contribution, it will be considered part of the initial investment. This means each additional contribution not exceeding the 125% limit can receive the full tax benefits even though it hasn't been invested for the full 10 years.

If additional contributions exceed the 125% limit at any time, the start date of the 10 year period will reset.

**Table 1: Taxation treatment of withdrawals from an investment bond**

Year of withdrawal	Tax treatment
Withdrawals within 8 years	100% of the earnings on the investment bond are included in your assessable income and a 30% tax offset applies <sup>1</sup>
Withdrawals in the 9th year	2/3 of earnings on the investment are included in your assessable income and a 30% tax offset applies*.
Withdrawals in the 10th year	1/3 of earnings on the investment are included in your assessable income and a 30% tax offset applies*.
Withdrawals after the 10th year	All earnings on the investment are tax free and do not need to be included in your assessable income.

<sup>1</sup>The 30% tax offset compensates for the tax already paid on earnings by the insurance company or friendly society

**Important information**

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