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Federal budget prompts investors to look for alternative investment structures to super

IOOF believes the changes to the non-concessional contribution cap as part of the 2016/17 Federal budget will trigger Australians to consider alternative investment structures to help meet retirement needs.

As part of the 2016/17 Federal budget, the ability for Australians to make non-concessional contributions has been severely reduced as the introduction of a backwards-looking lifetime cap of $500,000 replaces the annual contribution caps.

This proposal is expected to take effect from budget night (3 May 2016) and will capture all non-concessional contributions made to super after 1 July 2007, hampering the opportunity for many Australians to make additional tax-effective contributions to support their

Private savings are considered one of the “three pillars” of retirement funding and IOOF believes saving for retirement is vitally important.

Although the tax concessions offered by super are incredibly generous, alternative structures can still result in a more tax-effective outcome than investing directly.

Investment bonds as alternative investment structures

One such alternative is an investment bond, such as IOOF WealthBuilder. Investment bonds can offer investors a capped tax rate of 30% on earnings, which are taxed within the bond. By having earnings taxed internally, there is no complications with investors’ personal tax returns.

Additionally, funds invested in the bond are accessible at any time, rather than being locked up in super and awaiting a condition of release. After ten years, the full value of the bond can be redeemed free of personal tax.

Another benefit of an investment bond, given the amount of an investors’ super which can be rolled over to an Account Based Pension is proposed to be capped at $1.6m per person, it is possible to establish a regular withdrawal plan from an investment bond. This would allow someone to make after-tax contributions above the $500,000 limit as well as receive a regular income stream from a tax environment capped at 30%, complementing their super capital.

Finally, an investment bond offers Estate Planning flexibility, allowing investors to nominate a beneficiary to receive the bond free of tax on their death, without the capital having to go through their Estate. Whilst super can offer the same benefit, with the potential lack of ability to contribute the funds to super in the first place an investment bond can be a convenient alternative and not all persons can receive a super death benefit free of tax.