IOOF

WEALTHBUILDER

Example strategy 9

Estate planning for Trusts: keeping distributable income to a manageable level

Issue

Bob and **Adele** are both retired and have utilised the structure of a family trust for many years.

- The family trust has recently sold a property, with the funds currently sitting in a bank account in the trust name.
- Bob and Adele have also chosen not to distribute all of the income that comes into the family trust as it affects their entitlement to the Commonwealth Seniors Health Card (CSHC). They would like to qualify for the card as Bob has health issues.
- They therefore choose to have their family trust pay tax at the highest marginal tax rate with undistributed income, so to keep their personal taxable income below the CSHC thresholds.

Solution

Invest the proceeds from the sale of the property in the trust, however inside the structure of the investment bond.

- Appoint Bob as the sole life insured on the investment bond.
- No assessable income generated by the investment bond so distributable income is nil.
- Flow on effect on not having to distribute any of the earnings from the investment bond to the beneficiaries of the trust.
- Access to the funds if required.

Outcome

- Earnings are taxed at 30% within the bond rather than the top marginal tax rate.
- The distributable income for the trust has been reduced.
- The Commonwealth Seniors Health card has been retained.
- When Bob passes away all growth and earnings on the investment inside the investment bond will be free of any tax liability, regardless of the time invested and can now be distributed as capital.
- With IOOF WealthBuilder, the life insured can be amended, which can provide some very strategic planning opportunities.

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