

**Q** *I have been offered an investment that claims it is tax free in Australia after 10 years, is that true?*

**A** Many investment advisors based out of Australia have recently started offering Australian Expatriates investments through 10 year Insurance Bonds offering a tax free investment.

This is offered as a significant advantage and definitely seems attractive on face value, however you need to dig a little bit deeper before you make any commitments.

It is true that if you invest in a qualifying Short Term Life Insurance Policy then under Australian law the bonuses issued to you are non-taxable if the policy has gone for a period of not less than 10 years.

This is not anything new, in fact these rules were introduced in 1983 but did not gain wide spread acceptance in Australia as a key element of the tax free status was that the Life Insurance Company had paid the tax already, so returns generally provide to be underperforming the market once this was factored in.

The recent activity in offshore Life Insurance Policies has the advantage that often the policy is based in a lower tax jurisdiction than Australia, so that can lead to improving the overall return, and new methods and systems offered to investors has made these types of products more attractive and worthy of consideration for many Australian Expatriates.

Each offering needs to be carefully checked, as under Australian Law, the Tax Office still has the right to tax proceeds if the commissioner considers the returns to be unreasonable in amount or in the operation of the policy.

Generally speaking is the policy is done through a reputable and recognised Life Insurance Company, is predominantly for the purpose of protection and insurance and goes the full 10 year term, then you should reasonably expect to enjoy tax free returns.

For many expats while abroad, the need for such a policy still needs to be questioned to ensure that the right decision to undertake such an investment is made. The key factors include:

### **Am I already Tax Free?**

If you are in a country that does not tax expatriates on investment incomes such as Singapore, Hong Kong or Dubai, then to have your money invested in a policy may not be a very good idea.

You are already benefiting from tax free returns when investing normally, so to add a time requirement could prove a major cost and inconvenience when there is nothing gained from a tax perspective as you were already tax free.

Only if you intended to not use the funds on your return to Australia, would the policy have any tax merit, as the advantage of a few years tax free in Australia would apply.

### **Will you need the funds on return?**

For many expatriates, the primary objective of saving is to pay off our future home mortgage or buy a residence on our return to Australia. If this is likely to occur before the 10 year period of the bond, then you need to seriously question the merit of using the policy as an investment structure.

If you cancel the policy when back in Australia and

it has not gone the full 10 year term, then all of the profits will be subject to Australian tax if you have had it less than 8 years, 2/3rds taxable if in the 9th year and 1/3rd taxable if cashed in during the 10th year of the policy.

It is highly recommended that any regular savings investment by Australian expatriates should have a term of investment no longer than expected time before you return to Australia. That way the funds are available for you to do what is best for you and your family.

There can be serious cost and cash flow implications of carrying a personal home mortgage while your funds are locked away in any investment. You are always better off to have reduced your mortgage on the home that you chose to live in when you have returned to Australia rather than keeping the investment and carrying the debt.

### What is the Cost versus Benefit of the Policy?

In the modern world you get nothing for nothing. Any policy will come with costs, some upfront and some deferred, and usually there are also early surrender fees that need to be considered.

Anytime you introduce a structure around your investments, the cost of operating needs to be justified against the costs of alternatives, including a nil cost environment in your personal name.

This is especially true for Australian Expatriates as if you need the funds within the 10 year period, possibly because you have returned to Australia, then some of these policies have very high cancellation fees.

Ask very clearly and get written confirmation of any initial fees, termination fees and what commission may be payable to the person offering you the policy. Do not believe any verbal assurances, as these have no weighting if problems arise later.

To undertake any long term savings policy of any kind there are some simple questions that you need to have properly answered so you can make the best decision for your personal circumstances.

- When will you need the money as you should never go for a term beyond that period,
- What is the purpose of the savings and does that match the commitment timing,
- Is it tax friendly both while living out of Australia and on return,
- Will you be able to afford the contributions when you return to live in Australia,
- What are the real costs now and on cancellation of the policy in the future,
- Is any commission payable reasonable value for the service and benefit provided.

If you are content that the policy fits your circumstances with the answers to the above then it should be safe to proceed, but don't be afraid to seek independent advice prior to the decision to commit as it can save you lots of money and problems later.

Steve Douglas is the co-founder and Managing Director of Australasian Taxation Services (ATS), established in Singapore in 1995. ATS provides specialist taxation services to people of any nationality investing in Australian property, as well as Australian expatriates living overseas. Areas of specialisation include the Australian taxation aspects of property investment, as well as expatriate and migration planning.