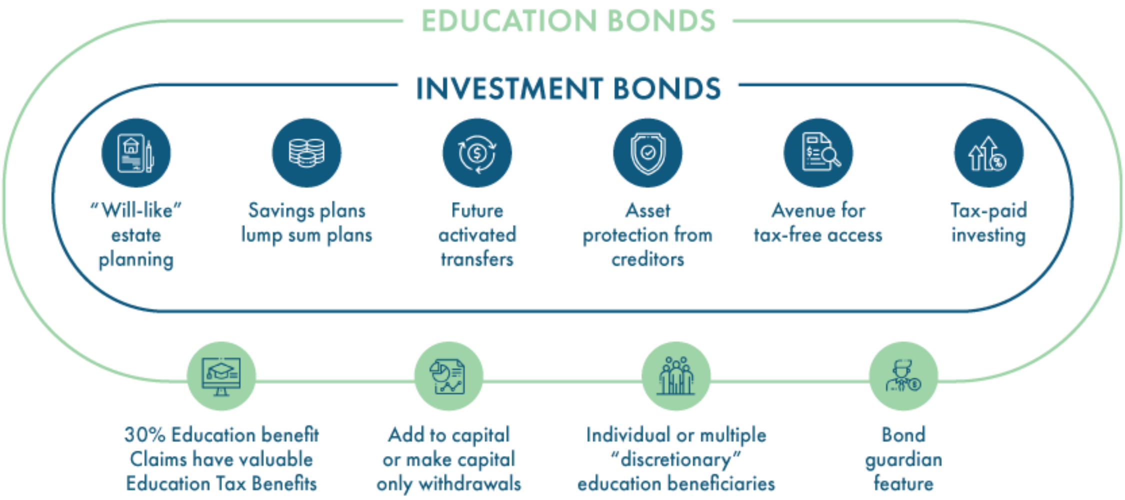
Education Bonds – For the Future

We've touched previously on the power of investing in your human capital and how it can lead to better outcomes in the future. Education bonds are a way for individuals to help the next generation, using a potentially tax effective structure to support future educational needs. The cost of education is rising, with All information discussed is factual in nature and for educational purposes only.

An education bond is a type of investment bond that is specifically designed to help save for, and fund, future educational expenses. There are a few overlapping similarities between investment bonds (touched on last week) and education bonds as shown below.



Source: Futurity Investment

What are the main differences?

- You can change the student(s) (recipient(s)) that are eligible to receive benefits. Some funds will allow you to nominate multiple recipients.
- Recipients withdrawing funds for "educational purposes" can receive a 30% education benefit claim on the earnings component of the bond.
- The Bond owner, when withdrawing to pay for education expenses, can choose to withdraw funds from capital or earnings.
- You can appoint a "Bond Guardian" who can manage the bond in your absence, or if you become incapacitated.

What is an educational Purpose?

The definition is broad, however it includes all the obvious expenses, such as tuition, living allowance, boarding, books and equipment.

30% Education Benefit Claim

When funds are withdraw for the purpose of funding education costs, you are eligible to claim a refund on the tax that has already been paid on the earnings component. This is equal to $30 for every $70 withdrawn from the earnings made in the bond. For example, if a claim is made for

$10,000 for School fees this generates a $3,000 education tax benefit. So although $10,000 is claimed the bond balance only reduces by $7,000.

"Tax paid" on Investment Bonds

Earnings on underlying investments are taxed at the corporate tax rate (currently 30%) before being reinvested back into the bond.

The 10-year rule

Like investment bonds, the 10-year rule also applies. That is, after this period, earnings aren't taxed at an individual level, and not assessed for capital gains. This benefit is subject to adhering to the 125% rule.

The 125% rule – Contributions

Just like investment bonds, you can only contribute 125% of the previous years' contribution to maintain eligibility for the tax-free benefit after the 10-year mark.

Benefits of an Education Bond

- Potentially a tax-effective way to save for a beneficiary('s) education.
- You can claim education benefits on the earnings component, where a refund on the tax already paid is returned.
- There are no restrictions on who can contribute, but the 125% rule needs to be adhered to.
- There are ways to access the funds with tax-free treatment. For example, withdrawals from capital, for any purpose, are tax-free at any time.
- You can switch between investment options within the bond, without incurring capital gains liabilities.

Things to consider with Education Bonds

- Generally, a long-term investment strategy, and the value of the bond will increase or decrease, depending on the investment options chosen.
- Future education needs of the recipient(s) may not be certain.
- Any benefits received by the recipient from the earnings of the bond and prior to the 10-year rule, are included in their taxable income, therefore assessed at their applicable marginal tax rate. For this reason, holders generally choose to wait until the recipient is over 18 before funding any educational expenses from the bonds' earnings.
- Providers usually place lifetime limits on the amount you can contribute as the capital component.

Education bonds mainly suit investors who are certain of the future educational path of the recipient and suit investors that are on, or close to the highest marginal tax rate.

Alex, Anu and the team.

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