

## Announcement – Applicability of the 125% rule

### Australian Unity Education Savings Plan Lifeplan Education Savings Plan CBA Education Savings Plan

17 December 2021

This announcement is issued by Lifeplan Australia Friendly Society Limited ('Lifeplan'), ABN 78 087 649 492, AFS Licence No. 237989, as the issuer of the Australian Unity Education Savings Plan, Lifeplan Education Savings Plan and CBA Education Savings Plan.

#### Purpose of this Update

The purpose of this update is to ensure existing plan holders are aware of potential tax implications that may be impacted by the level of annual contributions made into a policy.

Previously issued product brochures did not contain the following level of explanation regarding the 125% contributions rule, so it is important that existing plan holders are aware of certain tax rules that may apply when making a withdrawal of income for non-education purposes.

In summary, existing plan holders should note that there are no tax implications to the investor when withdrawals are made to pay for education expenses, whether from income or capital contributions.

However, the **10 year rule** means that withdrawals that are not for education purposes do not qualify for the Education Tax Benefit and the income amount of the withdrawal is assessed as investment income in your hands in accordance with the following rules:

- If you have held your Plan for more than 10 years, withdrawal proceeds are not taxable (subject to the 125% rule requirements).
- Withdrawals made within the first eight years of your Plan's commencement are fully assessable. The assessable amount is reduced to two-thirds for a withdrawal in the ninth year, and to one-third in the 10th year.
- A tax offset of 30% currently applies on the assessable amount, which may eliminate or help reduce your personal tax impact.

For example, if your marginal tax rate is 47% you only need to pay additional tax of 17%. If your personal tax rate is below 30%, any excess tax offset will help reduce your tax on other assessable income.

#### The 125% rule

The 125% rule is a tax rule that governs how much you can contribute to your policy each year. Past product brochures did not highlight that the 10-year tax period used to determine any assessable income on a non-education withdrawal begins from your policy's original start date, but can be reset if you have exceeded the 125% rule.

In the first ten years of joining the fund, you are limited to contributing 125% of the previous year's contribution, to avoid restarting the 10-year tax period. Here are some important things to note with the 125% rule:

- an investment year is considered each 12-month period from your investment's original start date. This date is referred to as your anniversary start date.
- if you make an additional contribution in excess of the 125% limit, the 10-year period will start again for the entire investment, from the anniversary start date within the year you have breached the 125% rule.
- if you do not make any contribution in a particular year, any contributions in following years will reset the 10-year rule.
- if you wish to invest more than 125% of the previous investment year's contributions, it may be more appropriate to start a new investment.
- after the 10th year, earnings on each additional contribution receive immediate tax-free withdrawal status.

For example, if your initial contribution in year 1 was \$10,000, you can contribute up to \$12,500 ( $\$10,000 \times 125\%$ ) in year 2, and so on. By contributing within the limits of 125% of the previous year's total Contributions you will not breach the 125% Rule. However, if at any time you make contributions over 125%, the 10-year rule will be reset.

Further, and more tailored, information on this topic will be issued to assist plan holders in the new year. To assist you in maintaining the 125% limit, we are intending to include in your next annual statement details of the previous year's contributions, and the allowable contribution level for the following year.

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### Important information

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