TAX AND THE PATHWAY EDUCATION FUND

INCLUDING THE LIFELONG EDUCATION FUND AND STRUCTURED SAVER FUNDS

FACT SHEET

The Pathway Education Fund (PEF) has been established by ASG for the purpose of providing benefits for the education of nominated beneficiaries. It is designed to qualify as a 'scholarship plan' under the Income Tax Assessment Act 1997.

TAX TREATMENT OVERVIEW

A. TAX ON YOUR CONTRIBUTIONS

Contributions paid into the fund do not attract any tax. Also, withdrawals of contributions (net of fees) are treated as a tax-free return of capital to the member.

B. TAX ON YOUR INVESTMENT EARNINGS (WHILE IN THE FUND)

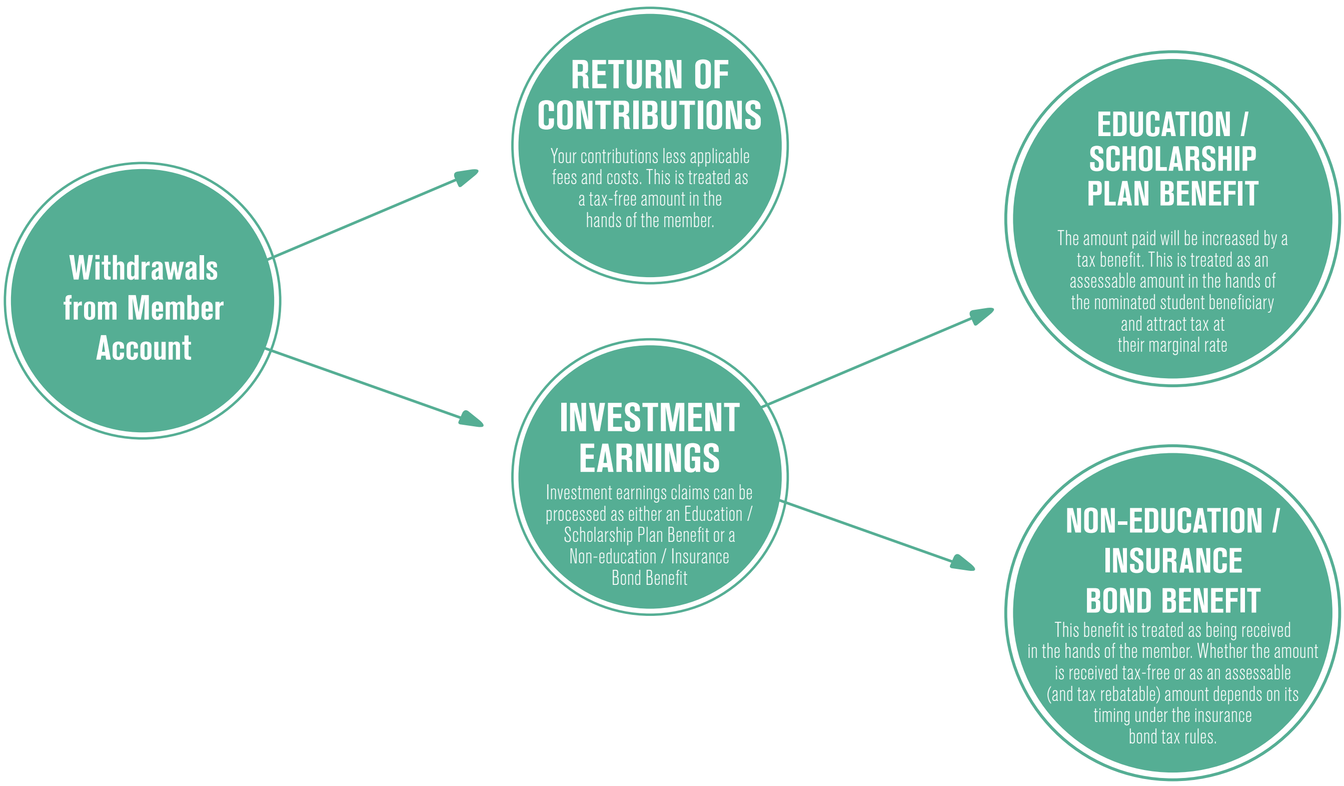
Ongoing investment earnings are currently taxed at the maximum rate of 30 per cent. Fund tax can be reduced by offsets such as dividend imputation credits and tax deductions available to the Fund.

C. TAX ON BENEFIT PAYMENTS

Who will pay tax on withdrawals?

In summary, who is assessable for tax purposes and for how much, depends on a few factors. These include:

- whether your withdrawal comprises your contributions, your investment earnings or a combination of both
- whether the earnings portion of your withdrawal is for:
  - an Education Benefit (Pathway and Lifelong funds) / Scholarship Plan Benefit (Structured Saver Funds) or
  - a Non-education Benefit (Pathway and Lifelong funds) / Insurance Bond Benefit (Structured Saver Funds)



Withdrawal type	Who is treated as receiving the amount for tax purposes?	Tax status of amount received	
Return of net contributions	Member	Tax-free return of capital	
Education Benefit / Scholarship Plan Benefit	Nominated student beneficiary	Under age 18: Taxed at rates applicable for minors (generally)*	Aged 18 or over within the financial year: Taxed at adult marginal rates
Non-education Benefit / Insurance Bond Benefit	Member	If received after 10-year tax period - or if due to certain defined events†: Tax-free. Otherwise: Assessable to the member at marginal tax rates, with access to an offsetting 30% tax rebate and subject to the Insurance Bond Rules†.	

** Income received by an 'excepted minor' or if otherwise treated as 'excepted income' is taxed under the standard marginal tax rates applicable to adults (aged 18 or over). † See below for more detail on how Insurance Bond Rules work, including section D below.*

D. TAX ON CERTAIN DEFINED EVENTS

There is no tax payable on benefits received as a result of death, accident, serious illness or other disability affecting the member or nominated student. Similarly, there is no tax payable on benefits received as a result of unforeseen serious financial difficulties affecting the member.

WHAT ARE THE TAX BENEFITS?

Earnings of the Funds are taxed in the fund at the rate of (currently) 30 per cent. You can benefit from certain tax concessions made available for scholarship plans, including ASG's ability to get back any tax paid within the Fund (for your benefit) when you utilise your investment earnings to fund education-related expenses.

The main tax benefits of the Funds are as follows:

- The Funds are a 'tax-paid' investment. This means that the Funds pay tax on the investment earnings of your contributions, at the rate of 30 per cent. As a result, periodic and on-going bonus allocations from Fund investment earnings to your Member Account are not required to be included in your assessable income and you therefore do not attract personal tax on those earnings. This particular tax concession means your taxable income stays down, and that may carry flow-on benefits, such as not attracting higher income-related levies and charges, and possibly attracting some income-tested government benefits.
- If your marginal tax rate is above the rate of 30 per cent, you benefit from having on-going investment earnings efficiently taxed at this capped tax rate within the Fund, rather than at your marginal tax rate.
- The amount of your Education / Scholarship Plan Benefit will be increased by tax-recouped benefits. This is because ASG can claim a tax deduction on benefits paid to fund education expenses, and it will pass on the value of this deduction benefit in the amount paid for your nominated beneficiary.
- Education / Scholarship Plan Benefits paid are treated as assessable income to the nominated beneficiary instead of the member(s). As a student, your nominated beneficiary may attract a low or even nil personal tax rate on this benefit amount, especially if aged 18 years or over (by the end of the tax year) and if their taxable income is below the effective adult tax-free threshold*.
- The Fund is entitled to utilise any tax offset it receives (including any available dividend imputation credits), which can reduce the tax it pays on earnings.
- If you withdraw earnings as an Insurance Bond / Non-education Benefit and you have held the account for more than 10 years since the first contribution, generally there is no personal tax payable. The Insurance Bond Rules apply in this situation (please see the Insurance Bond Rules section of this fact sheet for more information).
- You can access your net contributions (your contributions less applicable fees and costs) at any time, without having to pay any tax.

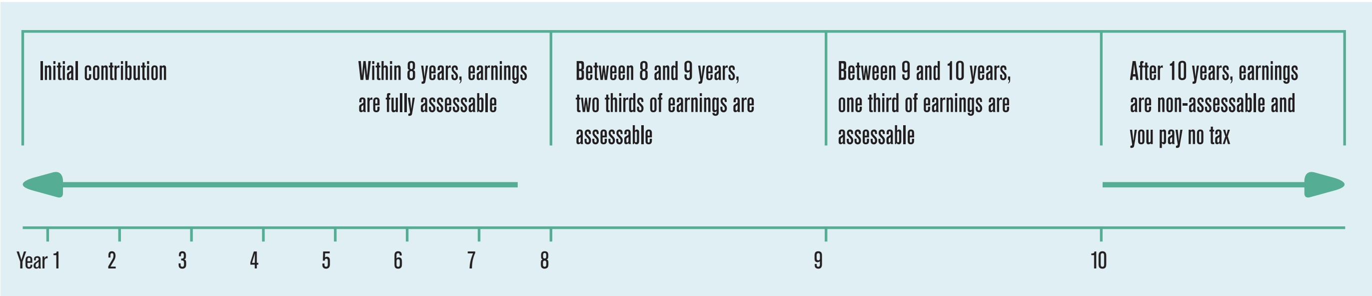
**See the Australian Taxation Office (ATO) website for more information on individual income tax rates: www.ato.gov.au.*

INSURANCE BOND RULES

Insurance Bond Rules are special tax rules that apply to a scholarship plan, when you withdraw your investment earnings as a Non-education / Insurance Bond Benefit.

If you receive any investment earnings after 10 years from the date of your initial contribution, and you also satisfy the 125 per cent rule (see 'What is the 125 per cent rule?' below), the amount you receive (as a member) will be tax free. In other words, the tax on earnings has already been paid by the Fund – and you do not pay and report any further tax.

If you receive any investment earnings within the 10 year period (other than on certain defined events – see section D above), the amount will count as part of your assessable income and be subject to tax at your marginal rate. The exact amount you will be required to declare, which will be assessed, will depend on when (in relation to the 10 year period) you make the withdrawal—please refer to the following table:



You will however be entitled to receive a 30 per cent tax rebate on the assessable amount, to compensate for tax already paid by ASG on fund earnings in the Fund. The Australian Taxation Office will automatically calculate this special tax rebate, when you declare the assessable amount within 'bonuses received from life insurance companies and friendly societies' in your individual tax return.

WHAT IS THE 125 PER CENT RULE?

The 125 per cent rule allows you to make additional contributions to your Member Account each year, provided they are not more than 125 per cent of the previous plan year's total contributions (i.e. they are limited to a 25 per cent increase on the prior year's total contributions).

If you exceed 125 per cent of the previous plan year's contributions, the start date of the 10 year period will be reset for tax purposes. Exceeding the 125 per cent limit will not alter the tax position of Education / Scholarship Plan Benefits, it will only alter when the 10 year period commences – which only relates to Non-Education / Insurance Bond Benefits.

Note: It is your responsibility to monitor your contributions with respect to the 125 per cent rule. ASG will provide you with information to help you manage your contributions via your Annual member statement and on our website. If you have any questions about the 125 per cent rule and your contributions please contact ASG or speak to your licensed financial adviser or tax agent.

CASE STUDY: TAX IMPACT ON WITHDRAWAL AS AN EDUCATION / SCHOLARSHIP PLAN BENEFIT

Jim and Mary are looking to access $15,000 to pay an education related expense in the form of University Tuition fees for their 19 year old son, Alex. Even though Alex works part time, he earns less than the current effective tax-free threshold of $20,542 (for resident adults).

They have chosen to access the money as a combination of a return of their net contributions and a Scholarship Plan Benefit. Because they satisfy the Scholarship Plan Benefit Criteria, they are eligible to receive the tax deduction benefit ASG passes on, in addition to their earnings.

The tax treatment for each of these components is as follows:

- Net contributions are returned to Jim and Mary with a tax-free status
- Scholarship Plan Benefits are paid to Alex, grossed up by the tax deduction benefit, and then taxed at his marginal tax rate.

Note, while this is assessable income to Alex, he is not required to pay any tax on this money because:

- he is 18 years old (satisfying the 18 year age rule), and
- his taxable income (including the Scholarship Plan Benefit) remains below the tax-free threshold at the time, of $20,542.

CASE STUDY: TAX IMPACT ON WITHDRAWAL AS A NON-EDUCATION / INSURANCE BOND BENEFIT

Jim and Mary are sending their son Alex to a private school and are looking to access $17,000 from their Member Account. If their claim is not processed as a Scholarship Plan Benefit, the money is then processed as a combination of a return of their net contributions and an Insurance Bond Benefit.

THE TAX TREATMENT FOR EACH OF THESE COMPONENTS IS AS FOLLOWS:

- Net contributions are returned to Jim and Mary with a tax-free status
- Non-Education / Insurance Bond Benefits are paid to Jim and Mary and may be assessable at marginal tax rates, depending on when they are paid within the 10 year period (for tax purposes).

THE FOLLOWING SCENARIOS APPLY:

Scenario A (withdrawing after ten years):

If they have had the Member Account for more than 10 years since the first contribution date and they satisfy the Insurance Bond Rules (subject to the 125 per cent rule, see previous page), they can withdraw their earnings tax paid. This means Jim and Mary don't have to pay any further income tax on the amount received. ASG can't claim a tax deduction for this amount therefore there is no tax deduction benefit it can pass on to increase this payment amount.

Scenario B (withdrawing in the ninth and tenth years):

If they held the Member Account in their ninth or tenth years, their earnings would be partially assessable and taxed according to their marginal tax rate. However, the assessable amount here will attract an automatic 30 per cent tax rebate, to compensate for tax paid by ASG on Fund earnings prior to withdrawal.

Scenario C (withdrawing before the eighth year):

If they had held the Member Account for up to eight years, their earnings would be fully assessable and taxed according to their marginal tax rate. However, the assessable amount here will attract an automatic 30 per cent tax rebate, to compensate for tax paid by ASG on Fund earnings prior to withdrawal.

ADDITIONAL INFORMATION

Is there a need to quote a tax file number?

Under existing tax and privacy laws, members and nominated beneficiaries are not required to quote their tax file number (TFN) and no withholding tax will be deducted from earnings or withdrawals as a result of you not quoting your TFN to ASG.

Does withholding tax apply to non-residents?

If you are a non-resident member or student, your account's accrued earnings and any withdrawals from your Member Account are not subject to non-resident withholding tax.

This information has been examined by ASG's Independent Tax Consultant who has confirmed that it reflects the current tax rules as at 19/10/2018. This is general information only and does not substitute appropriate and independent professional advice, which should be obtained in seeking to ascertain how prevailing tax rules apply to your individual circumstances. This information may change over time and we recommend you refer to your tax agent or www.ato.gov.au to ensure this information is up to date.