

Group risk insurance taxation guide



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Taxation guide for superannuation owned policies

The Trustee of the Superannuation Fund (the Fund) owns the insurance contract and is the beneficiary on behalf of its members. The lives insured are members of the Fund and are not party to the policy, other than being named as the lives insured. When a claim becomes payable, the insurance proceeds are paid to the Fund.

| EVENT | PREMIUM DEDUCTIBILITY | BENEFIT ASSESSABILITY |
|--|--|---|
| Death Cover | Yes Premiums related to death cover are tax deductible to the Trustee of the Fund. | Fund: Insurance proceeds received by the Fund are non-assessable to the Fund and payment of proceeds to a member out of the Fund are non-deductible to the Fund. Dependant¹ Beneficiary: When the Fund pays the amount as a Superannuation lump sum death benefit this will be tax free in the hands of the dependant of the deceased. Non-Dependant Beneficiary: Superannuation lump sum paid to a non-dependant may consist of a tax-free and a taxable component. Taxable component is taxed at a maximum of 17% ² and the untaxed component taxable at a maximum of 32%. |
| Total & Permanent Disablement (TPD) Cover | Yes Premiums ³ are tax deductible to the Trustee of the Fund. | Fund: Insurance proceeds received by the Fund are non-assessable to the Fund. Proceeds paid to a member out of the Fund are non-deductible to the Fund. Beneficiary: Taxed as a superannuation benefit that consists of a tax-free and a taxable component – taxable component of income stream is assessable with a 15% offset, tax free to beneficiaries aged 60 and over. |
| Terminal Illness | N/A – as premiums are incorporated in the death cover premiums. | Fund: Insurance proceeds received are non-assessable to the Fund and payments of the proceeds to a member out of Fund are non-deductible to the Fund. Beneficiary: Superannuation lump sum benefits paid to member who is terminally ill is tax free. |
| Salary Continuance Cover/Income Protection | Yes Premiums are tax deductible to the Trustee of the Fund. | Fund: Insurance proceeds received are non-assessable to the Fund and payments of the proceeds to a member out of Fund are non-deductible to the Fund. Member: Benefit is assessable to the member of the Fund. ⁴ |
| Total & Temporary Disablement (TTD) | Yes Premiums are tax deductible to the Trustee of the Fund. | Fund: Insurance proceeds received are non-assessable to the Fund and payments of the proceeds to a member out of Fund are non-deductible to the Fund. Member: Benefit is assessable to the member of the Fund. |

1. Dependant includes spouse or former spouse of the deceased, children under 18, any person who has an interdependency relationship with the deceased or any other person who was financially dependent on the deceased before they died. Children aged 18 and over are not dependants unless they can prove financial dependency.
2. All tax rates stated in this Taxation Guide include 2% Medicare Levy. Please note circumstances where the Medicare Levy is reduced or not payable, such as for low income earners or where benefits are paid to a Trustee of a deceased estate.
3. Premiums will be deductible to the Trustee of the Fund if it is for a 'disability superannuation benefit'. This definition is generally more restricted than the payout conditions of the policy. The Trustee of the Fund should refer to Taxation Ruling TR 2012/6 for guidelines on the deductible portion of premiums and the supporting documentation required (such as an actuarial certificate).
4. The benefit may subsequently be contributed into the Fund and be taxed at 15%. A corresponding personal contribution deduction to the member may apply depending on the extent that member's assessable income and reportable fringe benefits arise from their employment activities.

Taxation guide for non-superannuation owned policies

The employer owns the insurance contract. Employer pays the premiums and is the beneficiary of the insurance proceeds. The lives insured are employees of the employer and are not party to the policy, other than being named as the lives insured.

| EVENT | PREMIUM DEDUCTIBILITY | BENEFIT ASSESSABILITY | | | | | | |
|--|---|--|-----------|--------------------------|-----------|---|---------------|--|
| Death Cover | <p>Yes</p> <p>Premiums are generally tax deductible to the employer¹.</p> <p>FBT may apply.</p> | <p>Employer: Benefits paid are assessable as income to the employer. Payment of proceeds by the employer to the estate of deceased employee is tax deductible.</p> <p>Beneficiary: Where the proceeds are paid (within 12 months of death) as a result of the death of the employee, the amount will generally be a Death Benefit Employment Termination Payment (Death Benefit ETP).</p> <table border="1"> <thead> <tr> <th>Recipient</th> <th>Tax on Taxable Component</th> </tr> </thead> <tbody> <tr> <td>Dependant</td> <td> <ul style="list-style-type: none"> • First \$195,000 tax free • Balance – up to 47%² </td> </tr> <tr> <td>Non-dependant</td> <td> <ul style="list-style-type: none"> • First \$195,000 – 32% • Balance – up to 47% </td> </tr> </tbody> </table> | Recipient | Tax on Taxable Component | Dependant | <ul style="list-style-type: none"> • First \$195,000 tax free • Balance – up to 47%² | Non-dependant | <ul style="list-style-type: none"> • First \$195,000 – 32% • Balance – up to 47% |
| Recipient | Tax on Taxable Component | | | | | | | |
| Dependant | <ul style="list-style-type: none"> • First \$195,000 tax free • Balance – up to 47%² | | | | | | | |
| Non-dependant | <ul style="list-style-type: none"> • First \$195,000 – 32% • Balance – up to 47% | | | | | | | |
| Total & Permanent Disablement (TPD) Cover | <p>Yes</p> <p>Premiums are generally tax deductible to the employer.</p> <p>FBT may apply.</p> | <p>Employer: Benefits paid are assessable as income to the employer. Payment of proceeds by the employer to the estate of deceased employee is tax deductible.</p> <p>Employee: Where the proceeds are paid as a result of termination of employment, the benefit is paid as an Employment Benefit Termination Payment (Life Benefit ETP).</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Tax on Taxable Component</th> </tr> </thead> <tbody> <tr> <td>Under 55</td> <td> <ul style="list-style-type: none"> • First \$195,000 – 32% • Balance – up to 47% </td> </tr> <tr> <td>Over 55</td> <td> <ul style="list-style-type: none"> • First \$195,000 – 17% • Balance – up to 47% </td> </tr> </tbody> </table> | Age | Tax on Taxable Component | Under 55 | <ul style="list-style-type: none"> • First \$195,000 – 32% • Balance – up to 47% | Over 55 | <ul style="list-style-type: none"> • First \$195,000 – 17% • Balance – up to 47% |
| Age | Tax on Taxable Component | | | | | | | |
| Under 55 | <ul style="list-style-type: none"> • First \$195,000 – 32% • Balance – up to 47% | | | | | | | |
| Over 55 | <ul style="list-style-type: none"> • First \$195,000 – 17% • Balance – up to 47% | | | | | | | |
| Terminal Illness | <p>N/A – as premiums are incorporated in the death cover premiums.</p> | <p>Employer: Benefits paid are assessable as income to the employer. Payment of proceeds by the employer to the employee is tax deductible.</p> <p>Employee: Where a condition of release has been met under super law the tax treatment of a Terminal Illness benefit may be tax free if accessed during the certification period. Any benefits accessed after the certification period ends may not be tax free.</p> | | | | | | |
| Salary Continuance Cover/Income Protection/Total Temporary Disablement (TTD) | <p>Yes</p> <p>Premiums are generally tax deductible to the Employer.</p> | <p>Employer: Benefits paid are assessable as income to the employer. Payment of proceeds by the employer to the employee is tax deductible.</p> <p>Employee: Benefit is assessable to the employee.</p> | | | | | | |

1. Premiums paid by employers will be tax deductible if the employer enters into an insurance contract for 'revenue replacement' purposes, or to meet a promised/contractual employment term. This applies to premiums for Death, Terminal Illness, TPD and Salary Continuance/TTD cover.

2. All tax rates stated in this Taxation Guide include 2% Medicare Levy. Please note circumstances where the Medicare Levy is not payable, such as benefits paid to a Trustee of a deceased estate.

Note: A Temporary Budget Repair Levy will apply for 3 years for the 2015, 2016 & 2017 tax years. The levy applied will be 2% of any amount of taxable income above \$180,000 and has not been included in the above table.

The information contained in this flyer is based on our interpretation of taxation laws in force as at 1 July 2016. The information provided is general advice and does not take into account an individual employer or trustee's objectives, financial situation or needs and should not be relied upon when purchasing a group insurance policy. Nothing in this document or any related communication should be construed as tax advice from AIA Australia. You must not rely on this document for any tax advice. AIA Australia will not be held responsible and/or liable for any action taken by you in reliance on the matters set out in this document. Tax treatment may differ depending on individual circumstances therefore you should speak to your tax adviser in relation to any taxation issues.