

# 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	<b>Yes</b> Premiums related to death cover are tax deductible to the trustee of the Fund.	<b>Fund:</b> Insurance proceeds received by the Fund are non-assessable to the Fund and payment of proceeds to a beneficiary out of the Fund are non-deductible to the Fund. <b>Dependant<sup>1</sup> Beneficiary:</b> 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. Note that a dependant beneficiary may have the option to commence an income stream which is taxed depending on the age of the deceased and beneficiary. <b>Non-Dependant Beneficiary:</b> Superannuation lump sum paid to a non-dependant may consist of a tax-free and a taxable component (element taxed and untaxed). Tax-free component is always tax-free in the hands of the beneficiary. Taxable component-element taxed is taxed at a maximum of 17% <sup>2</sup> and the taxable component-element untaxed is taxable at a maximum of 32%.
Total & Permanent Disablement (TPD) Cover	<b>Yes</b> Premiums <sup>3</sup> are tax deductible to the trustee of the Fund.	<b>Fund:</b> 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. <b>Member:</b> Taxed as a superannuation benefit that consists of a tax-free and a taxable component-element taxed. The taxable component-element taxed of an income stream is assessable at the member's marginal tax rate with a 15% offset for recipients under age 60 (while a lump sum is taxed at up to 22%) and both income stream payments and lump sums are tax-free to members aged 60 and over.
Terminal Illness	<b>N/A</b> – as premiums are incorporated in the death cover premiums.	<b>Fund:</b> 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. <b>Member:</b> Where the 'terminal medical condition' condition of release has been met under superannuation law the tax treatment of a terminal illness benefit may be tax-free if accessed during the certification period. Any benefits accessed after certification period ends may not be tax-free.
Salary Continuance Cover/Income Protection/ Total & Temporary Disablement (TTD)	<b>Yes</b> Premiums are tax deductible to the trustee of the Fund.	<b>Fund:</b> 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. <b>Member:</b> Benefit is assessable to the member of the Fund at the member's marginal tax rate. <sup>4</sup>

1. Dependant for tax purposes 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 for tax purposes 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 legal personal representative of a deceased estate.
3. Premiums will be deductible to the trustee of the Fund if it is for a 'disability superannuation benefit' that aligns with the SIS condition of release. This definition may be 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 be retained in the fund subject to fund rules or re-contributed into the super environment subject to the relevant contributions caps and contributions tax.

## 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><b>Yes</b></p> <p>Premiums are generally tax deductible to the employer<sup>1</sup>.</p> <p>FBT may apply.</p>	<p><b>Employer:</b> 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><b>Beneficiary:</b> 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"> <li>• First \$200,000 tax-free</li> <li>• Balance – up to 47%<sup>2</sup></li> </ul> </td> </tr> <tr> <td>Non-dependant</td> <td> <ul style="list-style-type: none"> <li>• First \$200,000 – 32%</li> <li>• Balance – up to 47%</li> </ul> </td> </tr> </tbody> </table>	Recipient	Tax on Taxable Component	Dependant	<ul style="list-style-type: none"> <li>• First \$200,000 tax-free</li> <li>• Balance – up to 47%<sup>2</sup></li> </ul>	Non-dependant	<ul style="list-style-type: none"> <li>• First \$200,000 – 32%</li> <li>• Balance – up to 47%</li> </ul>
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Total & Permanent Disablement (TPD) Cover	<p><b>Yes</b></p> <p>Premiums are generally tax deductible to the employer.</p> <p>FBT may apply.</p>	<p><b>Employer:</b> Benefits paid are assessable as income to the employer. Payment of proceeds by the employer to the employee is tax deductible.</p> <p><b>Employee:</b> 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). This payment may include an invalidity segment, providing a tax-free component to represent the time between disability and when the individual would have retired providing the employee ceased employment due to ill health and two medical practitioners have certified that it is unlikely the employee can ever be gainfully employed in the capacity for which they are reasonably qualified.</p> <p>A portion of the benefit may be tax-free and a portion taxable.</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Tax on Taxable Component</th> </tr> </thead> <tbody> <tr> <td>Under preservation age</td> <td> <ul style="list-style-type: none"> <li>• First \$200,000 – 32%</li> <li>• Balance – up to 47%</li> </ul> </td> </tr> <tr> <td>Over preservation age</td> <td> <ul style="list-style-type: none"> <li>• First \$200,000 – 17%</li> <li>• Balance – up to 47%</li> </ul> </td> </tr> </tbody> </table>	Age	Tax on Taxable Component	Under preservation age	<ul style="list-style-type: none"> <li>• First \$200,000 – 32%</li> <li>• Balance – up to 47%</li> </ul>	Over preservation age	<ul style="list-style-type: none"> <li>• First \$200,000 – 17%</li> <li>• Balance – up to 47%</li> </ul>
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Terminal Illness	<p><b>N/A</b> – as premiums are incorporated in the death cover premiums.</p>	<p>If an employer pays a death benefit to an employee as a result of a terminal illness benefit, the payment will only be considered an ETP if the employee ceases work due to ill health and two medical practitioners have certified that it is unlikely the employee can ever be gainfully employed in the capacity for which they are reasonably qualified. In this case it is treated the same as a TPD benefit above.</p>						
Salary Continuance Cover/Income Protection/ Total Temporary Disablement (TTD)	<p><b>Yes</b></p> <p>Premiums are generally tax deductible to the Employer.</p>	<p><b>Employer:</b> Benefits paid are assessable as income to the employer. Payment of proceeds by the employer to the employee is tax deductible.</p> <p><b>Employee:</b> Benefit is assessable income 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 legal personal representative of a deceased estate.

The information contained in this document is based on our interpretation of taxation laws in force as at 1 July 2017. The information provided is general only and does not take into account factors like an individual's, employer's or trustee's objectives, financial situation or needs and should not be relied upon when purchasing a group insurance policy. Before acting on the information in this document, you should consider whether the information is appropriate having regard to such factors. Nothing in this document or any related communication should be construed as financial, legal, tax or other advice from AIA Australia and you must not rely on this document for any tax such advice. AIA Australia expressly disclaims any and all liability for representations or warranties, expressed or implied, contained in, or for omissions from, the information. 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. For further information regarding the product, please refer to the relevant Product Information Booklet.