Group risk insurance taxation guide

HEALTHIER, LONGER, BETTER LIVES

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 are tax deductible to the trustee of the Fund	**Fund:** Insurance proceeds received by the Fund are non-assessable to the Fund. Payment of proceeds to a beneficiary out of the Fund are non-deductible to the Fund. **Tax Dependant[1] Beneficiary:** When the Fund pays the amount as a superannuation lump sum death benefit this will be tax-free in the hands of the tax dependant. Note that a superannuation (SIS) dependant[2] can receive the payment as a lump sum, an income stream[3] or a combination of both (subject to fund rules). A death benefit income stream will be tax-free if either the beneficiary or the deceased (at time of death) are age 60 or over. Otherwise, the taxable component of the income stream payment is assessable at the beneficiary's marginal tax rate less a 15% tax offset. **Non-Tax Dependant[1] Beneficiary:** A superannuation lump sum death benefit paid to a non-tax dependant may consist of a tax-free and a taxable component (taxed and untaxed element.). The tax-free component is always tax-free in the hands of the beneficiary. The taxable component-taxed element is taxed at a maximum of 17%[4] and the taxable component-untaxed element is taxable at a maximum of 32%[4].
Terminal Illness	**N/A** – as premiums are incorporated in the death cover premiums	**Fund:** Insurance proceeds received by the Fund are non-assessable to the Fund. Payment of proceeds to a member out of the Fund are non-deductible to the Fund. **Member:** Where the 'terminal medical condition' condition of release has been met under superannuation law, the tax treatment of a lump sum terminal illness benefit may be tax-free if accessed during the certification period, regardless of the member's age. Any remaining benefits that are accessed after the certification period ends will be taxed as a lump sum superannuation benefit where tax will depend upon the member's age (see table below). A terminal illness income stream will be tax-free if the member is age 60 or over. Otherwise, the taxable component of the income stream payment is assessable at the member's marginal tax rate. Note the 15% tax offset will only apply if the member is between preservation age and age 60 (or if the disability superannuation benefit definition has been met).
Total & Permanent Disablement (TPD) Cover	**Yes** Premiums[5] are tax deductible to the trustee of the Fund.	**Fund:** Insurance proceeds received by the Fund are non-assessable to the Fund. Payment of proceeds to a member out of the Fund are non-deductible to the Fund. **Member:** A member can receive the payment as either a lump sum, an income stream or a combination of both (subject to fund rules). A TPD lump sum benefit is taxed as a lump sum superannuation benefit as follows: **Age** — **Taxable component (taxed elements)[4]** Under preservation age — 22% Preservation age to 59 — 0% up to $210,000[6]; 17% over $210,000[6]+ Age 60 and over — Nil A disability superannuation benefit income stream will be tax-free if the member is age 60 or over. Otherwise, the taxable component of the income stream payment is assessable at the member's marginal tax rate less a 15% tax offset.
Salary Continuance Cover/Income Protection/ Total & Temporary Disablement (TTD)	**Yes** Premiums are tax deductible to the trustee of the Fund	**Fund:** Insurance proceeds received by the Fund are non-assessable to the Fund. Payment of proceeds to a member out of the Fund are non-deductible to the Fund. **Member:** The payments will be included in the member's assessable income and taxed at their marginal tax rate[7]

1. A tax dependant includes a spouse (including de facto, same-sex or former spouse), children under 18, any person who was in an interdependency relationship or was financially dependent on the deceased before they died. Children aged 18 and over are not tax dependants unless they can prove they were financially dependent on the deceased.
2. A SIS dependant includes a spouse (including de facto and same sex), child of any age, or any person who was in an interdependency relationship or was financially dependent on the deceased before they died.
3. Death benefit income streams can only be paid to a surviving spouse, a child under 18, a child between 18 and 25 that is financially dependent on the deceased however the pension must be commuted by the time the child turns 25, or a disabled child of any age. Any other individual that is financially dependent or interdependent on the deceased at time of death may also qualify for a death benefit income stream.
4. All tax rates stated in this Taxation Guide include a 2% Medicare levy. Please note there may be 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.
5. Premiums will be deductible to the trustee of the Fund if it is for a 'disability superannuation benefit' that aligns with the SIS 'permanent incapacity' 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).
6. The low rate cap amount is $210,000 for 2019/20.
7. Where a member does not satisfy the 'temporary incapacity' condition of release, the benefit may be retained in the fund subject to fund rules.

Taxation guide for non-superannuation owned policies

The employer owns the insurance contract, 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	**Yes** Premiums are generally tax deductible to the employer[1]. FBT may apply[2].	**Employer:** Insurance proceeds paid are assessable as income to the employer. Payment of proceeds by the employer to the employee's beneficiaries or estate is tax deductible to the employer. **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). A Death Benefit ETP is taxed as follows:
Terminal Illness	**N/A** – as premiums are incorporated in the death cover premiums.	If an employer pays a death benefit to an employee as a result of a terminal illness, 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, the terminal illness payment will generally be taxed as a Life Benefit ETP (see table below).
Total & Permanent Disablement (TPD) Cover	**Yes** Premiums are generally tax deductible to the employer[1]. FBT may apply[2].	**Employer:** Insurance proceeds paid are assessable as income to the employer. Payment of proceeds by the employer to the employee is tax deductible to the employer. **Employee:** Where the proceeds are paid as a result of termination of employment, the benefit is paid as a Life Benefit Employment Termination Payment (Life Benefit ETP). This payment may include an invalidity segment, providing a tax-free component which represents the time between the day employment stopped due to ill health and the day the employee would have retired (ie. age 65). The tax-free invalidity segment can only be paid if 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. A Life Benefit ETP is taxed as follows:
Salary Continuance Cover/Income Protection/ Total Temporary Disablement (TTD)	**Yes** Premiums are generally tax deductible to the employer[1]	**Employer:** Insurance proceeds paid are assessable as income to the employer. Payment of proceeds by the employer to the employee are tax deductible to the employer. **Employee:** The payments will be included in the employee's assessable income and taxed at their marginal tax rate. Please note the same taxation applies to family care, home care and rehabilitation incentives benefits when paid under Salary Continuance/Income Protection/Total & Temporary Disablement (TTD) claims.

Death Benefit ETP:

Recipient	Tax on Taxable Component[4]
Tax Dependant[3]	0% up to \$210,000[5] 47% over \$210,000[5]+
Non-tax dependant[3]	32% up to \$210,000[5] 47% over \$210,000[5]+

Life Benefit ETP:

Age	Tax on Taxable Component[4]
Under preservation age	32% up to \$210,000[5] 47% over \$210,000[5]+
Over preservation age	17% up to \$210,000[5] 47% over \$210,000[5]+

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. Premiums paid in respect of an employee may be considered an expense payment fringe benefit and therefore subject to fringe benefits tax (FBT). FBT is paid by the employer but will also be tax deductible to the employer. However, the employer will usually deduct the cost from the employee's salary package.
3. A tax dependant includes a spouse (including de facto, same-sex or former spouse), children under 18, or any person who was in an interdependency relationship or was financially dependent on the deceased before they died. Children aged 18 and over are not tax dependants unless they can prove they were financially dependent on the deceased.
4. All tax rates stated in this Taxation Guide include a 2% Medicare levy. Please note there may be circumstances where the Medicare Levy is not payable, such as benefits paid to a legal personal representative of a deceased estate.
5. The ETP cap is \$210,000 for 2019/20.