Types of Life Insurance – Tax Implications

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To be discussed

- ❑ Types of Insurance
- ❑ Paying for premiums
- ❑ Life insurance on Member mode
- ❑ Life Insurance on Preservation
- ❑ Deductible and Non-Deductible
- ❑ Label - Tax Return and Regulatory Return
- ❑ Proceeds from Life Insurance
- ❑ Property Insurance
- ❑ Tax on your insurance claim
- ❑ GST on Insurance
- ❑ Prepaid and Outstanding Insurance
- ❑ Cancel of Insurance

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Types of Insurance

Your SMSF is permitted to arrange the following Insurance Policies for its Members:

- ❑ Life Insurance
- ❑ Total & Permanent Disability Insurance (TPD) and Death Benefit
- ❑ Income Protection Insurance

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Life Insurance

Life Insurance provides a lump sum payment to your family on your death or diagnosis of a terminal illness. Life Insurance is available as a policy on its own, or in a policy that includes Linked Total and Permanent Disability Insurance

Life cover – Also known as the ‘death cover’, this covers lump sum or income stream to the policy holder’s beneficiary in case he dies or has a terminal illness

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Life Cover with Optional TPD Cover

ONECARE POLICY SCHEDULE

DATE
10 May 2018

POLICY NUMBER
1006298605

Life Insured: Catherine Kinlyside

LIFE COVER WITH OPTIONAL TPD COVER

Cover type	Amount insured	Annual premium	Indexation	Cover start date	Cover expiry date
Life Cover	$630,000	$657.49	Yes	21 June 2017	20 June 2100
Super TPD (Working)	$630,000	$815.49	Yes	21 June 2017	20 June 2035

Options

Benefit payment type:	Lump sum
Premium type:	Stepped premium
Occupation categoryt:	C
TPD definition:	Any Occupation
Smokert:	No

Optional extras

Premium Waiver Disability Option:	No
Business Guarantee Option:	No
Double TPD Option:	No

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Policy Schedule

	First name	Surname	Date of birth	Gender
Life/lives insured:	Catherine	Kinlyside	22 March 1970	Female

Annual premium before discount(s)*:	**$1,545.81**
Discount(s) - Package:	$72.83
Annual premium after discount(s)*:	**$1,472.98**
Includes:	
Policy Fee(s)*:	$89.25

*Includes stamp duty if applicable.

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Total & Permanent Disability Insurance (TPD)

Permanent Disability Insurance provides a lump sum if the insured person suffers Total & Permanent Disablement. Total and Permanent Disability Insurance can be Linked with your Life Insurance Policy, or it can be a Standalone Policy

SMSF trustees who have taken out Total and Permanent Disablement (TPD) insurance for its members have been able to claim a full tax deduction for the premiums paid.

TPD insurance – This one gives benefit if one becomes seriously disabled and is unable to work again

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Total & Permanent Disability Insurance (TPD) Cover

TPD any occupation

TPD any occupation' means insurance against the member suffering an illness or injury that is likely to result in the member’s permanent inability to work in any job for which the member is reasonably qualified by education, training or experience.

A complying SMSF can deduct 100% of insurance premiums for 'TPD any occupation' cover for its members as shown in table 6.

TPD own occupation

'TPD own occupation' means insurance against the member suffering an illness or injury that is likely to result in the member’s permanent inability to work in the member’s own occupation (other than in a substantially reduced capacity).

A complying SMSF can deduct a portion of insurance premiums for 'TPD own occupation' cover for its members, as shown in table 6

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Total & Permanent Disability Insurance (TPD) Cover

Table 6: Proportions of insurance premiums for TPD cover that are deductible (see note 1)

The SMSF can deduct:	%
TPD any occupation cover	100
TPD any occupation cover with one or more of the following inclusions: › activities of daily living › cognitive loss › loss of limb › domestic (home) duties	100
TPD own occupation cover	67
TPD own occupation cover with one or more of the following inclusions: › activities of daily living › cognitive loss › loss of limb › domestic (home) duties	67
TPD own occupation cover bundled with death (life) cover	80
TPD own occupation cover bundled with death (life) cover with one or more of the following inclusions: › activities of daily living › cognitive loss › loss of limb › domestic (home) duties	80

Income Protection Insurance

Also known as salary continuance cover this one provides with a regular income for a specific span of time if the policy holder is unable to work due to any disability.

Income Protection Insurance can provide you with an income if an illness or injury prevents you from engaging in your employment. You can generally insure up to 75% or less of your normal income, payable up to the age of 65, thereby helping you meet your regular financial commitments

Generally, costs you incur directly related to your ability to earn an income may be tax deductible

Income protection insurance is primarily designed for those with a quantifiable, regular income or who work at least 20 hours a week

Majority if the super funds already come along with life cover and TPD insurance. While a few others offers income protection insurance, this insurance comes with a specific amount and is commonly available without medical checks

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Death Benefit – Binding Death Nominations

A death benefit is a payout to the beneficiary of a life insurance policy, annuity, or pension when the insured or annuitant dies. For life insurance policies, death benefits are not subject to income tax and named beneficiaries ordinarily receive the death benefit as a lump-sum payment.

If you're not a dependent of the deceased, you can only receive the benefit as a lump sum. The taxable component of the payment will be entitled to a tax offset that ensures the rate of income tax is as follows:

Also, super fund insurance payment can be done with pre-tax dollars but if one buys insurance outside the super fund, he has to use after-tax dollars

Taxed element - Maximum of 15% plus Medicare levy

Untaxed element - Maximum of 30% plus Medicare levy

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Death Benefit – Binding Death Nominations

If the rules of your super fund allow it, you can nominate the beneficiary for your super with your fund. This nomination may be non-binding or binding. If a binding death benefit nomination is allowed, you can nominate one or more dependents and/or your legal personal representative to receive your super.

If a deceased person did not make a nomination (or it is a non-binding nomination), the trustee of the fund may: use their discretion to decide which dependent or dependents the death benefit is paid to make a payment to the deceased's legal personal representative (executor of the deceased estate) for distribution according to the instructions in the deceased's will.

If a non-binding nomination was made by the deceased, the trustee of the fund may: use their discretion to pay in accordance with the non-binding nomination. Make a payment to the deceased's legal personal representative (executor of the deceased estate) for distribution according to the instructions in the deceased's will.

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D & F SHIELDS SUPERANNUATION FUND

Member Statement

For the year ended 30 June 2020

YOUR BENEFICIARY(s) - Mr David Bruce Shields

Fiona Margaret Shields (Spouse) 100.00%

Non-Binding

Email: fionamshields@gmail.com

Phone: (04) 1281 0612

D & F SHIELDS SUPERANNUATION FUND

Member Statement

For the year ended 30 June 2020

Consolidated - Mr David Bruce Shields

ACCESS TO YOUR BENEFITS

Unrestricted non-preserved (Generally available to be withdrawn)	$86,627.60
Restricted non-preserved (Generally available when you leave your employer)	$0.00
Preserved (Generally available once you retire, after reaching your preservation age)	$0.00

YOUR TAX COMPONENTS

Tax Free Component	$46,645.00
Taxable Component	$39,982.60

YOUR INSURANCE COVER

Death Benefit	$250,000.00
Disability Benefit	$0.00
Salary Continuance (Annual Insured Benefit)	$0.00

YOUR TOTAL SUPERANNUATION BALANCE

Your total superannuation balance	$86,627.60

NOTE: This amount does not include any entitlements from external super funds

INVESTMENT RETURN

The return on your investment for the year	1.95 %

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Paying for premiums

Insurance premiums (for policies such as life, TPD, and income protection insurance) paid by your SMSF are tax-deductible. For the SMSF to pay for Insurance Premiums, the Insurance Policy Owner must be in the name of SMSF with a specified Member named as the Insured person

Note that Life Insurance and Total & Permanent Disability Insurance premiums are not tax deductible in your personal name, but they are tax deductible if held in your SMSF. Income Protection Insurance is tax deductible in both your own name and in your SMSF. The SMSF will pay the Premiums and not you personally.

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Life insurance on Member Mode

If Insurance is paid from an accumulation member's balance all payments are tax-deductible.

If Insurance is paid from a pension account, all amounts are non-deductible

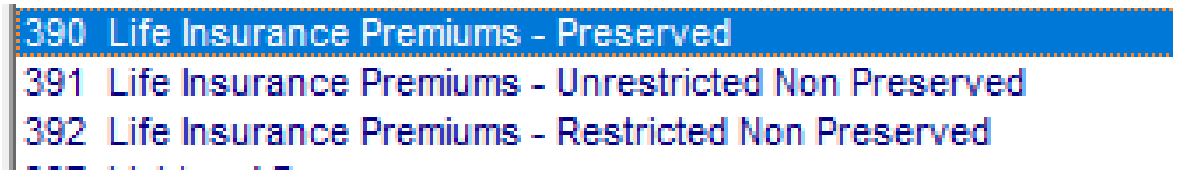
If the accumulation balance is only $1000 but insurance payments are more than $1000 this year, then we must code the remaining balance to a pension member insurance account and it is non-deductible

We must change regulatory return labels

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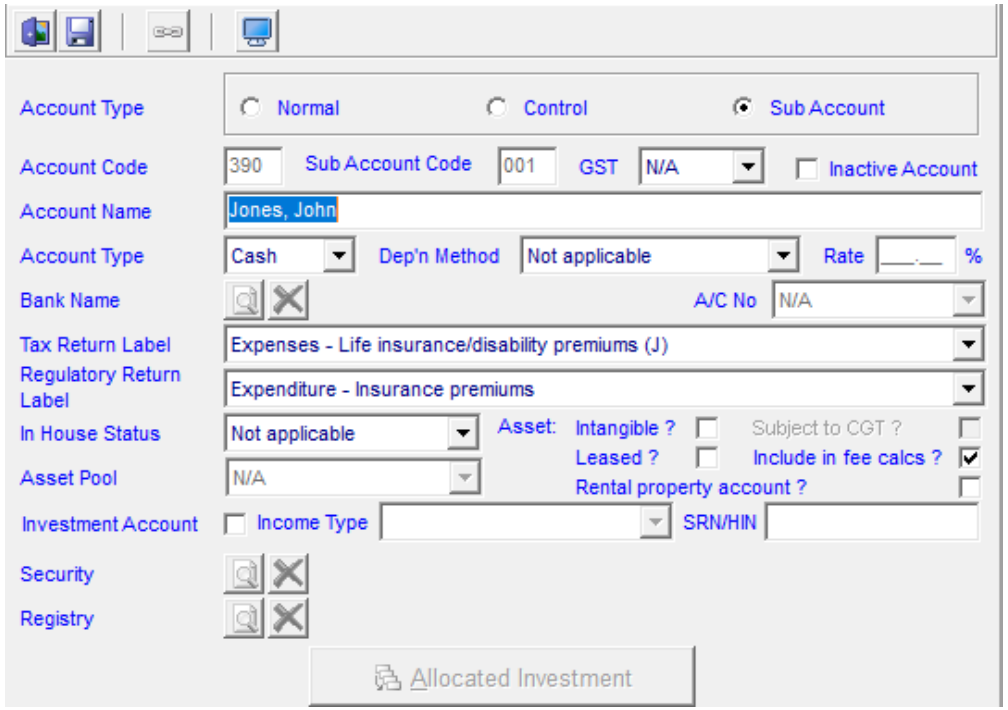
Life Insurance on Preservations

- We need to ensure where the balance is available from the below
- Life Insurance Premiums – Preserved
- Life Insurance Premiums - Restricted Non-Preserved
- Life Insurance Premiums - Unrestricted Non-Preserved



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Life Insurance - Deductible



Annual premium before discount(s)*:	$1,545.81
Discount(s) - Package:	$72.83
Annual premium after discount(s)*:	$1,472.98

390 **Life Insurance Premiums - Preserved**

390/001 **Jones, John**

01/08/2019	0	Bank Statement	1,472.98	1,472.98

Narration: Insurance

Life Insurance - Deductible

INCOME STATEMENT
FOR THE PERIOD 1 JULY 2019 TO 30 JUNE 2020

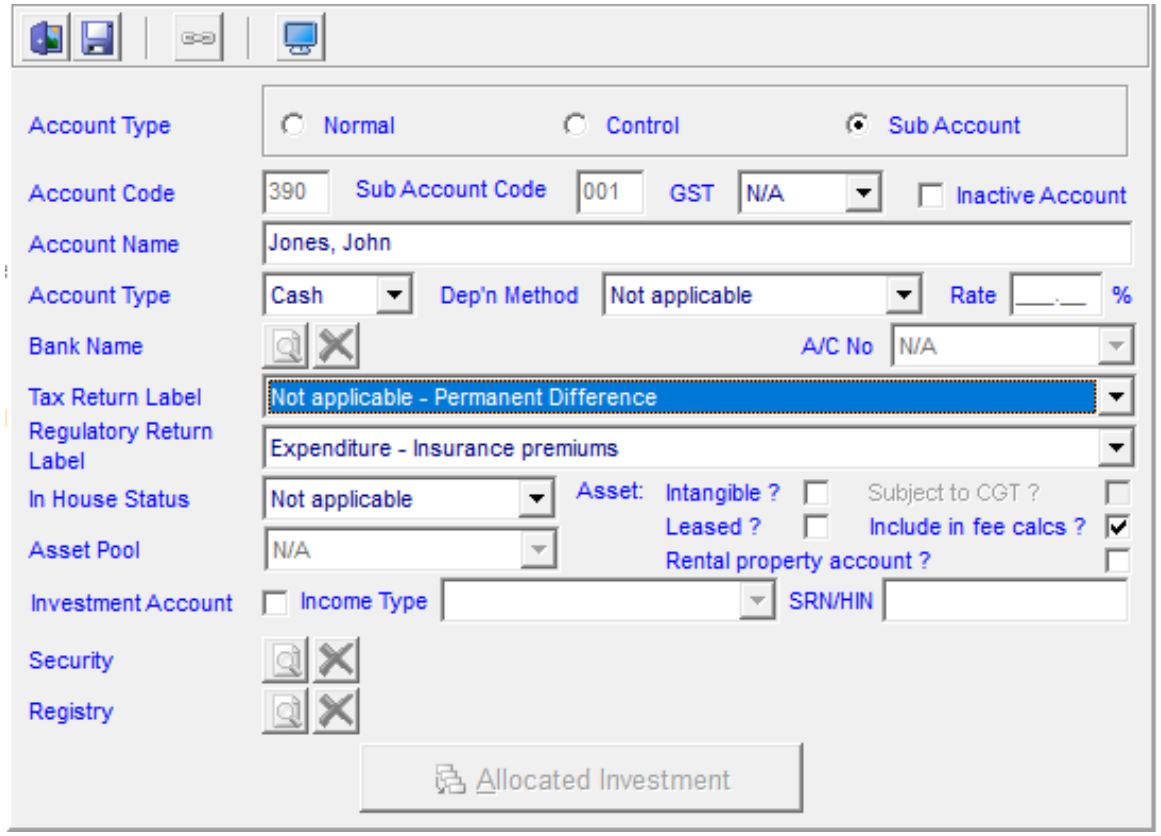
	2020 $
Income	
Interest Received	250.00
Rent Received	7,000.00
	7,250.00
Expenses	
Depreciation	-
Life Insurance Premiums - Preserved	1,472.98
Rental Property Expenses	-
	1,472.98
Benefits Accrued as a Result of Operations before Income Tax	5,777.02
Income Tax (Note 7)	
Income Tax Expense	866.55
	866.55
Benefits Accrued as a Result of Operations	$4,910.47

STATEMENT OF TAXABLE INCOME
FOR THE REPORTING PERIOD ENDED 30 JUNE 2020

	2020 $
Benefits Accrued as a Result of Operations before Income Tax	5,777.00
Less:	
	0.00
	5,777.00
Taxable Income	**5,777.00**
Tax Payable on Taxable Income	**866.55**
Income Tax Payable/(Refund)	**866.55**

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Life Insurance Non-Deductible



Annual premium before discount(s)*:	$1,545.81
Discount(s) - Package:	$72.83
Annual premium after discount(s)*:	$1,472.98

391 Life Insurance Premiums - Unrestricted Non Preserved

391/001 Jones, John

01/08/2019	0	Bank Statement	1,472.98	1,472.98

Narration: Insurance

Life Insurance Non-Deductible

INCOME STATEMENT
FOR THE PERIOD 1 JULY 2019 TO 30 JUNE 2020

	2020 $
Income	
Interest Received	250.00
Rent Received	7,000.00
	7,250.00
Expenses	
Depreciation	-
Life Insurance Premiums - Unrestricted Non Preserved	1,472.98
Rental Property Expenses	-
	1,472.98
Benefits Accrued as a Result of Operations before Income Tax	5,777.02
Income Tax (Note 7)	
Income Tax Expense	1,087.50
	1,087.50
Benefits Accrued as a Result of Operations	$4,689.52

STATEMENT OF TAXABLE INCOME
FOR THE REPORTING PERIOD ENDED 30 JUNE 2020

	2020 $
Benefits Accrued as a Result of Operations before Income Tax	5,777.00
Less:	
	0.00
	5,777.00
Add:	
Life Insurance Premiums - Unrestricted Non Preserved	1,473.00
	1,473.00
Taxable Income	**7,250.00**
Tax Payable on Taxable Income	**1,087.50**
Income Tax Payable/(Refund)	**1,087.50**

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Proceeds from Life Insurance

Fully tax free and treated as non-deductible in statement of taxable income

Life Cover claim
Life insured: The Late Nicole Lanyon

Dear Sir/Madam

We refer to the Late Nicole Lanyon's policy and thank you for your patience throughout our assessment. We are pleased to advise that the claim has been accepted.

We enclose our cheque for $611,776.42 representing full payment of the claim as follows;

Sum Insured at date of death	**: $611,699.00**
Plus Premium	**: $ 77.42**
Total Amount Payable	**: $611,776.42**

The value of personal financial advice

To assist with managing this claim payment we recommend obtaining financial advice that can take into account personal circumstances, needs and objectives.

We're here to help

We hope that we have been of assistance to you during this difficult time. If you have a question about your claim, please do not hesitate to contact me on (02) 9234 8284 or toll free on 1300 555 250, weekdays 8.30am to 5.30pm (AEST) or email generalretailclaims@onepath.com.au

Yours sincerely

Evelyn Abarca
Retail Claims Consultant

Proceeds from Life Insurance

GENERAL LEDGER FOR THE PERIOD 01/07/2019 TO 30/06/2020
FROM ACCOUNT 275/000 TO 275/999 - ENTRIES: ALL
Printed: Wednesday 30 June, 2021 @ 22:11:31

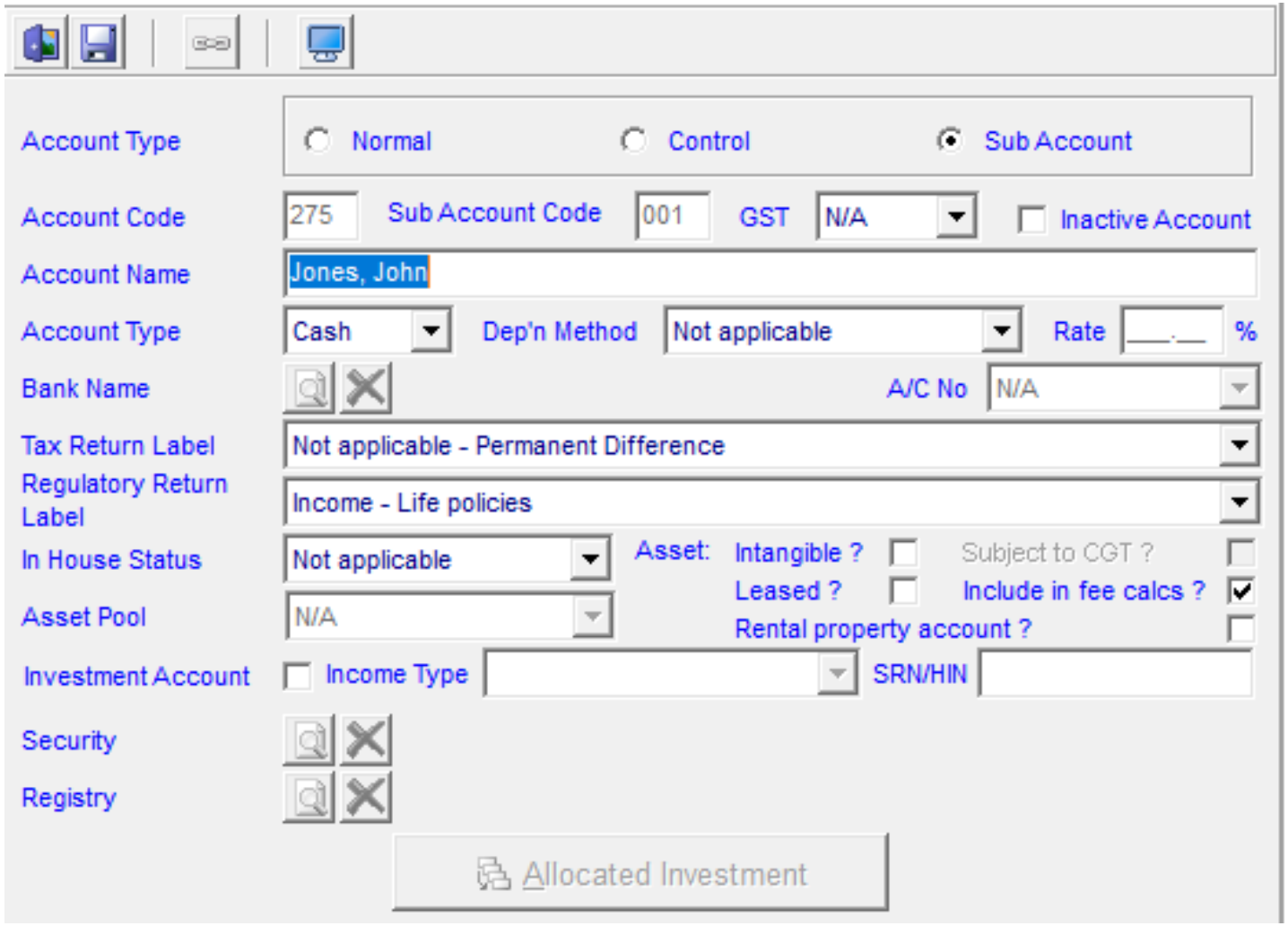
Date	Ref	Type	Units	Debits $	Credits $	Balance $
275	**Proceeds from Life Insurance Policies - Preserved**					
275/001	**Jones, John**					
31/12/2019	0	Bank Statement			611,776.42	(611,776.42)
Narration:	Proceeds from Life Insurance Policies					

Total Debits:	
Total Credits:	**$611,776.42**
Current Year Profit/(Loss):	**N/A**

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Label

Proceeds from Life Insurance



INCOME STATEMENT
FOR THE PERIOD 1 JULY 2019 TO 30 JUNE 2020

	2020 $
Income	
Interest Received	250
Proceeds from Life Insurance Policies - Preserved	611,776
Rent Received	7,000
	619,026
Expenses	
Depreciation	-
Life Insurance Premiums - Preserved	1,473
Rental Property Expenses	-
	1,473
Benefits Accrued as a Result of Operations before Income Tax	617,553
Income Tax (Note 7)	
Income Tax Expense	867
	867
Benefits Accrued as a Result of Operations	$616,687

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Proceeds from Life Insurance

STATEMENT OF TAXABLE INCOME
FOR THE REPORTING PERIOD ENDED 30 JUNE 2020

	2020 $
Benefits Accrued as a Result of Operations before Income Tax	617,553.00
Less:	
Proceeds from Life Insurance Policies - Preserved	(611,776.00)
	(611,776.00)
	5,777.00
Taxable Income	**5,777.00**
Tax Payable on Taxable Income	**866.55**
Income Tax Payable/(Refund)	**866.55**

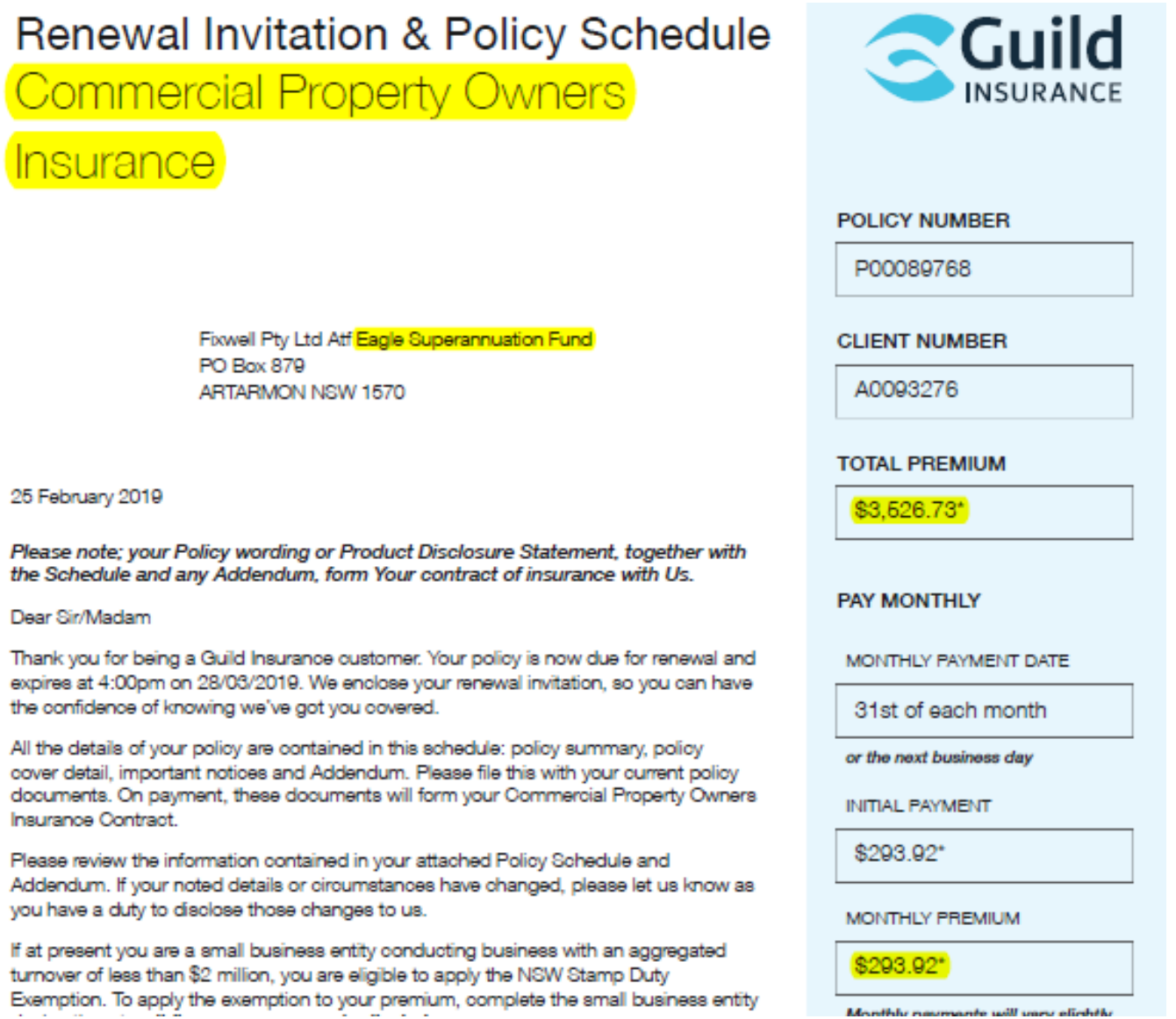
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If the property is available for let out then the full amount of insurance can be claimed i.e., 52 weeks a year as deductible

If the property is partially let out, then the rental income is reduced during FY proportionately you can claim your insurance as deductible.



Renewal Invitation & Policy Schedule

Commercial Property Owners Insurance

Guild INSURANCE

Fixwell Pty Ltd Atf Eagle Superannuation Fund
PO Box 879
ARTARMON NSW 1570

25 February 2019

Please note; your Policy wording or Product Disclosure Statement, together with the Schedule and any Addendum, form Your contract of insurance with Us.

Dear Sir/Madam

Thank you for being a Guild Insurance customer. Your policy is now due for renewal and expires at 4:00pm on 28/03/2019. We enclose your renewal invitation, so you can have the confidence of knowing we've got you covered.

All the details of your policy are contained in this schedule: policy summary, policy cover detail, important notices and Addendum. Please file this with your current policy documents. On payment, these documents will form your Commercial Property Owners Insurance Contract.

Please review the information contained in your attached Policy Schedule and Addendum. If your noted details or circumstances have changed, please let us know as you have a duty to disclose those changes to us.

If at present you are a small business entity conducting business with an aggregated turnover of less than $2 million, you are eligible to apply the NSW Stamp Duty Exemption. To apply the exemption to your premium, complete the small business entity

POLICY NUMBER
P00089768

CLIENT NUMBER
A0093276

TOTAL PREMIUM
$3,626.73*

PAY MONTHLY

MONTHLY PAYMENT DATE
31st of each month
or the next business day

INITIAL PAYMENT
$293.92*

MONTHLY PREMIUM
$293.92*

Monthly payments will vary slightly

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Property Insurance

Renewal Invitation & Policy Schedule

Commercial Property Owners Insurance

POLICY SUMMARY

Policy Number

P00089768

Policy Type

Commercial Property Owners Insurance

Policy Wording

GLD2510 v07/2016

Date of Issue

25/02/2019

Period of Cover

28/03/2019 - 28/03/2020 at 4:00pm

Insured(s)

Fixwell Pty Ltd Atf Eagle Superannuation Fund
Allcare Laser Cosmetics
Sydney Eagle Pty Ltd
Allcare Dental

Professional Services

Property Owners of: Retail Risks - Medium Fire Load

Business

Property Owners of: Footwear Retailer

Trading Name

None

Business Premises Address

118-120 Longueville Road, LANE COVE NSW 2066

Interested Parties

None

PREMIUM AMOUNT

Base Premium	$2,491.29
Fire Service Levy	$450.09
GST	$294.14
Stamp Duty	$291.21
Total Amount Payable	**$3,526.73**

COVER FOR 118-120 LONGUEVILLE ROAD, LANE COVE 2066	
Business Property	
Buildings Sum Insured	$898,435
Basis of Settlement (Buildings)	Reinstatement
Restrict cover to Strata Title Mortgagee's Interest only?	No
Business Contents	NOT TAKEN
Business Contents (Specified Items)	NOT TAKEN
Flood Cover	NOT TAKEN
Removal of Debris Sum Insured	$124,103
Excess	
Basic Excess	$250
Cyclone Excess	$2,000
Business Interruption	
Loss of Rent	NOT TAKEN
Additional Increased Cost of Working	NOT TAKEN
Claims Preparation Costs	NOT TAKEN
Weekly Rent Default Limit	$4,854
Indemnity Period	12 Months
Flood Cover	NOT TAKEN
Excess	
Basic Excess	$250
Cyclone Excess	$2,000
Rent Default Excess	4 Weeks
Theft	
Theft Sum Insured	$50,000
Basis of Settlement	Reinstatement
Excess	
Basic Excess	$250
Money	**NOT TAKEN**
Machinery and Electronic Equipment Breakdown	**NOT TAKEN**

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Tax on your insurance claim

Cover type	How it is taxed	How and to whom the claim will be paid
Death cover	Tax free	The death benefit is paid to your Beneficiaries in accordance with your Death Benefit Agreement if one is in place. If there is no Death Benefit Agreement in place the Life Insurance claim is paid out at the discretion of the remaining Trustees.
TPD cover	Tax free	The TPD benefit can be paid to the Member as a Lump Sum or Pension under the Permanent Incapacity Access Provisions.
Income Protection cover	Taxed at 15%	The Income Protection benefit can be paid to the Member only as a Pension under the Temporary Incapacity Access Provisions. The payout is taxed at the Member's marginal tax rate on receipt less a 15% rebate. This means that the tax on the payout will be the same whether the Income Protection Policy is owned by you or the SMSF. There is no difference. By having your Income Protection Policy owned by your SMSF, the SMSF will pay the Premiums and not you personally.

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GST

Life Insurance - SMSF	GST Free	No GST will be claimed from ATO
Property Insurance - Commercial	100% or Client specification	GST will be refunded from ATO
Property Insurance - Residential	NA	Even though paid with GST , but no GST will be refunded from ATO

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Prepaid and Outstanding Insurance

The fund advance payment for the next financial year will be treated as Prepaid insurance under the current asset section..

This asset will be closed on next financial year based on the periodical payment's basis.

Any insurance not paid from the fund's bank account will be treated as outstanding and most probably a non-concessional contribution as the member paid his or her after-tax amount from their account

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Advantages

The premiums of a life insurance policy via super fund are comparatively lesser because the super fund buys insurance policies in bulk. Then, the insurance premiums are automatically deducted from the super balance and are easy to pay

Paying for insurance under super fund is quite tax effective too. Premiums of the insurance under super fund and salary sacrifice contributions are taxed at 15%. This is lower than the marginal tax rate for most of the people.

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Disadvantages

A TPD insurance cover in super fund generally ends at the age of 65. Life cover ends at 70. Whereas, outside super fund, any cover continues till the holder is submitting premiums, Secondly, the amount of cover the policy holder can get via super fund is generally lower than the cover one gets outside super

If one changes super fund, or the contributions stop or the super account becomes inactive, the cover may end, and the holder could end up with no insurance. Next, premiums of the insurance are deducted from the super balance. This lowers the savings for retirement

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Cancel of Insurance

- Super funds can cancel insurance too! As per the law, super funds can cancel insurance on idle super accounts that have not received premiums for at least 16 months. To add to this, super funds might have their own regulations and operating mode. The point is that balance in the super account should not be too low.
- In general cases, the super fund contacts the individual if the insurance is about to end. The policy holder might want to retain the insurance if he does not have any other insurance, if he has a particular need for it or basically has dependents.
- Insurance for people under 25 Insurance will not be provided if the candidate is a new super fund member less than 25 years of age. One needs to write to the fund to request insurance through the super and if you work in a dangerous, high-risk job, one can cancel the cover if not required.

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Thank you!!

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