

The tax advantages of insurance

When most people think about financial planning they tend to focus on the wealth creation side of things, but often forget about the wealth **protection**. Building a financial plan without adequate insurance is like building a house on flimsy foundations.

Comprehensive insurance cover can often be overlooked as a significant expense, however, these costs can be made more affordable by taking advantage of the tax deductions that apply to specific types of insurance, and to some methods of implementing insurance.

Income protection

Due to the high frequency of claims, premiums for income protection insurance can be high. However, they are tax-deductible, so the cost is discounted at the same rate as the policy holder's marginal tax rate.

For example, someone on a marginal tax rate of **39.5%** (including Medicare levy), paying a premium of \$1,000 would have an out of pocket cost of just **\$605**, after the tax deduction is claimed.

It needs to be remembered, however, that any benefits paid under an income protection policy are treated as assessable income, and therefore subject to tax.

Life insurance

While the premiums for life insurance are not normally tax-deductible to individuals, there is a simple way to gain a tax benefit. Superannuation funds can claim a tax deduction for the life insurance premiums they pay. So by taking out life insurance via a superannuation fund, the end result is the same as if the premium was deductible to the person taking the insurance.

Using superannuation to provide life insurance has another potential benefit. As premiums are paid by the fund, it reduces the pressure on household cash flow. This may reduce the ultimate superannuation payout, but if the savings made outside of superannuation are used wisely, the overall financial position should be improved.

The proceeds of life insurance are not generally taxable. However, a death benefit paid from a super fund to a non-dependant may be subject to some tax.

Total and permanent disability insurance (TPD)

TPD insurance is usually attached to life insurance. From a tax perspective it's treated in a similar way, so implementing it via superannuation is usually the most tax-effective way to do it.

Trauma insurance

Trauma insurance pays a lump sum if the policy holder suffers a defined medical condition or injury. It cannot be implemented through superannuation. Premiums are not tax-deductible, and benefit payments are not subject to tax.

As with investing, the main focus on insurance shouldn't just be on saving tax. It is a protection tool. Always talk to a qualified adviser to ensure you get the appropriate level of cover, and the most tax-effective way to implement it.

Capital Results are dedicated to providing you with information so that you can make the decision that is right for you. We invite you contact us on (02) 9233 4111 or email info@capitalresults.com.au to make an appointment today.

Disclaimer and General Advice Warning

This flyer was prepared by Consultum Financial Advisers Pty Ltd (Consultum), ABN 65 006 373 995, AFSL No 230323. The flyer contains factual information and general financial product advice only. It has been prepared without taking into account any person's individual investment objectives, financial situation or particular needs. A person should not act on this information without first talking to a financial adviser. This information is given in good faith based on information believed to be accurate and reliable at the time of publication, including the continuance of present laws and Consultum's interpretation of them. Consultum does not undertake to notify recipients of changes in the law or its interpretation.

Consultum gives no warranty of accuracy or reliability, accepts no responsibility for any errors or omissions, including by reason of negligence. Consultum, its officers, employees or agents shall not be liable for any loss or damage whether direct, indirect or consequential arising out of, or in connection with, any use of, or reliance on, the information contained in this flyer.