Adviser Information

Income Protection

Reduce your Taxable Income by Prepaying your Income Protection

If you are considering income protection insurance, you can pre pay your premiums for up to 12 months, allowing you to receive the benefit of a tax deduction this year – whilst receiving the benefit of income protection in the following financial year.

Income protection pays a monthly benefit if a person has been unable to work because of sickness, injury or retrenchment for a certain period of time. The monthly payment received allows you to maintain your lifestyle and meet your financial commitments during the period in which you are unable to work at your full capacity.

Typically, Income Protection can replace up to 80% of your monthly income.

Types of Income Protection

There are basically three types of income protection premiums:

Guaranteed Premium. Often the most expensive because your premium cost is fixed regardless of the length of the policy term. The policy holder has the security of knowing that their premium will be fixed every month for the life of the policy.

Reviewable Premium. Reviewable income protection premiums are reviewed every few years and begin with a low premium but increase overtime as reviewed.

Renewable Premium. This is a type of reviewable premium where a policy is reviewed every time it is renewed – typically between one and five years.

Your Insurance Adviser will be able to help you determine the type of Income Protection Policy best suited to your needs.

Although Income Protection can work out to be more expensive than Life Insurance, you should keep in mind that the monthly premiums are tax deductible as they allow you to earn an income in the event of accident and illness.

Likewise, the benefits paid after a successful claim is made under your income protection insurance policy are taxable in the same way as your normal income.

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Variables to Consider

The Benefit Payment Period. The benefits can be paid for a various lengths of time, such as one year or five years or extended through to retirement age.

The Waiting Period. There are many factors to keep in mind here, eg. Are you an employee with sick pay and other leave benefits to fall back on or self employed where you may not have such provisions in place?

You should consider the length of time you're willing to wait before the monthly benefits start getting paid. The longer you extend the waiting period the lower your premium costs will be.

Leanne's story

Leanne is a 33 year old non smoker earning a salary of $100,000 per year. Leanne has taken out an Income Protection Policy outside her superannuation fund to replace up to 80% of her salary ($6667 per month).

By claiming the annual premium of $1367 as a tax deduction in the 2012/2013 financial year she should receive a tax saving of $526. Leanne's potential tax saving by prepaying her Income Protection Premiums for 2013/2014 before 30 June 2013 are shown below.

	Before	After
Salary	$100,000	$100,000
Less insurance deduction	n/a	-$1,367
Taxable income	$100,000	$98,633
Tax payable	$26,447	$25,921
Tax saving in 2012/2013*	**$526**	

This case study is fictional and all figures are a guide only; they are not intended to be advice in relation to the insurance you may need.

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