\>> PIS Timely Tips

Professional Investment Services Group of Companies

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Did you know?

This year, the Australian age pension celebrates its 100th anniversary. Introduced in 1908, a pension of one dollar per week was paid to men and women aged 65 and over. When introduced, 34,000 customers received the age pension.

Source: Australian Government June 2008

Tax Deductible Life Insurance Premiums

Many Australian's hold life insurance cover through their superannuation fund, be it a self-managed super fund or another fund such as a retail fund offered by fund managers and other financial institutions.

Where insurance cover is arranged by a superannuation fund on the life of a fund member, the premiums paid are generally tax deductible to the super fund.

The common types of life insurance cover arranged in this manner include death cover and total and permanent disablement (TPD) cover.

TPD insurance provides for the payment of the insurance proceeds to the policy owner (in this case, the superannuation fund) in the event that the member of the fund (the life insured) becomes totally and permanently disabled. There are a number of different definitions of total and permanent disablement that may apply.

At a meeting of the National Tax Liaison Group - Superannuation Technical Sub-group held on 31st March 2008, an issue was raised regarding tax deductibility of premiums paid by a superannuation fund to provide TPD cover for members. The minutes of this meeting were only recently released, hence the delay in reporting the developments.

It appears that to be eligible for a tax deduction, the premium must fund the insurance cover that pays a benefit where circumstances meet the specific definition of a "disability superannuation benefit". In simple terms, if TPD insurance benefits are not aligned with the definition of a "disability superannuation benefit", the premiums for the insurance cover may not be tax deductible to the super fund that pays the premium.

A "disability superannuation benefit" is defined as:

- A benefit paid to a person because he or she suffers from physical or mental ill-health, and
- Two legally qualified medical practitioners have certified that, because of the ill-health, it is unlikely the person can ever be gainfully employed in a capacity for which he or she is reasonably qualified because of education, experience or training.

This is often referred to as the "any occupation" definition of TPD.

By contrast, many life insurance contracts provide an "own occupation" definition. That is, a claim will be paid in circumstances where the individual insured is unable to work in their own occupation as a result of disablement (but they may be able to work in other occupations).

The preliminary view held by the Australian Taxation Office is that where the definition of TPD is not consistent with the definition of a "disability superannuation benefit" as set out in the Income Tax Assessment Act 1997, then a portion of the life insurance premium may not be tax deductible to the superannuation fund.

This presents a potential dilemma for insurance companies and for members who hold TPD insurance through their superannuation fund, particularly where it includes an "own occupation" definition for TPD.

We are continuing to monitor developments in this area and will provide further information as it comes to hand.

Source: The Australian Taxation Office and Professional Investment Services - August 2008

Splitting Super Contributions

Amendments to superannuation legislation that took effect from 1st January 2006 saw the introduction of a system that allows a person to split their superannuation contributions with their spouse.

At the time, this presented significant opportunities, allowing couples to engage in effective tax planning in the lead up to retirement and to manage Reasonable Benefit Limits as superannuation entitlements grew in value. With the introduction of significant superannuation reform from 1st July 2007 which saw the abolition of Reasonable Benefit Limits, and the removal of tax on superannuation benefits received by people once they reach the age of 60, the concept of superannuation contribution splitting seems to have fallen from the radar.

Despite this, superannuation contribution splitting remains a valid planning strategy for many people. In this article we will revisit the rules governing superannuation contribution splitting.

Contribution splitting involves a person requesting their superannuation fund to transfer contributions made to their superannuation account (both tax deductible and non-deductible contributions). This is not to be confused with making contributions for a spouse directly to their superannuation fund.

Up to 85% of concessional contributions may be split with an eligible spouse.

The process of initiating a contribution split involves the member lodging a request with their superannuation fund. Whilst many superannuation funds have their own forms, the Australian Taxation Office also has a standard form that can be used for this purpose.

Contribution splits are requested in the financial year following that in which the contribution was actually made. Put simply, if a contribution made in the 2007-08 financial year is to be split, the splitting request is lodged during the 2008-09 financial year.

Only contributions made in the immediate preceding financial year can be split.

The only time a contribution split can be made for contributions made in the current financial year is where the member's benefit in their current superannuation fund is to be rolled over in its entirety to another fund.

Contributions can be split in favour of a spouse who is under the age of 65 provided, if aged between 55 and 65, they have not satisfied the "retirement" condition of release. If aged between 55 and 65, the spouse with whom the contribution is to be split may be asked to sign a declaration to the effect that they have not permanently retired from the workforce.

Contribution splitting may prove to be a useful strategy where there is a benefit to be achieved by having one member of a couple's superannuation maximised. Let's look at a simple example:

Dick is currently aged 57 and his spouse Sharon is 51. Both are having contributions made to a superannuation fund and Dick is looking at commencing a pension from his super under the "transition to retirement" rules. Let's assume Sharon's employer contributed $50,000 to her superannuation during the 2007-08 financial year. As Dick is keen to maximise his superannuation prior to commencing his pension, Sharon could request her super fund to transfer this contribution to Dick's superannuation fund. As it was a concessional contribution (tax deductible) the maximum amount that may be transferred is 85% (or $42,500). The end result is that Dick's superannuation account balance has been increased by $42,500 which, in turn will allow him to draw a higher amount of pension income.

When considering a contribution splitting strategy, a number of issues need to be considered. With this in mind, it is always advisable to seek professional advice before embarking on splitting contributions.

The splitting of superannuation benefits as a result of a marriage breakdown is a different process to that described in this article and will be covered in a future edition.

Source: Peter Kelly - Professional Investment Services - August 2008

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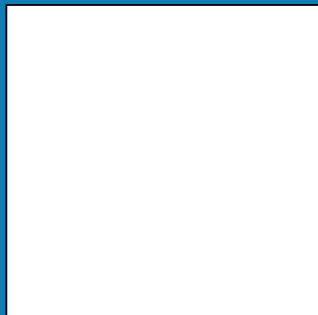

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