

Did you know?



Alex Koodrin
National Technical Manager

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Cash back option – no claim bonus for income protection

Some prospective income protection clients, particularly young professionals, ask their advisers what they would get back from their income protection policies if they never made a claim. Normally, the answer would be: nothing. The exception is if they took the Cash Back Option – an option under CommInsure's Income Protection range. Under this option, CommInsure will refund clients up to 20 per cent of all premiums paid if no claim is made.

If a client selects the Cash Back Option, which must be done at policy application, and holds the policy for at least three years, they will qualify for a refund when the policy ends (either through policy expiry, lapse or cancellation), other than on the death of the client. The amount of refund will depend on the number of years the policy has been in force. After three years, the refund is 13 per cent of premiums, increasing by one per cent each year until it reaches a maximum refund of 20 per cent once the policy has been in force for 10 years or more (see table 1 below).

What is the tax treatment?

Premiums paid for an Income Care or Income Care Plus policy are tax deductible, however, the additional 10 per cent of premiums paid for the Cash Back Option are not deductible (section 801 of the ITAA 1997).

If the client is eligible for a refund of premiums, this refund consists of two components:

1. That portion of the refund that relates to the premiums paid for the option is non taxable (CR 2005/15)
2. The balance of the refund relating to the premiums for which a deduction has been claimed is assessable (Subdivision 20-A ITAA 1997).

Take a client with a level premium Income Care Plus policy who pays \$2,200 per year (\$2,000 for the insurance and \$200 for the Cash Back Option) for 10 years (assuming no indexation). If the policy is subsequently cancelled, the client would be entitled to a refund of \$4,400 (i.e. 20 per cent of \$22,000). Of this refund, \$2,000 would be non-taxable, and the balance of \$2,400 would be assessable at the client's marginal tax rate.

Other important information

- ⇒ If there is more than one person covered by the policy, everyone must have the Cash Back Option
- ⇒ The option must be selected when the policy is first applied for and, if selected, **cannot** be cancelled
- ⇒ The option cannot be selected if the client selects the Premium Saver Option, the Total and Temporary Disability Cover Option or the Total and Permanent Disability Cover Option
- ⇒ No interest is payable on a refund
- ⇒ This option is only available to cover outside super.

Note

CommInsure's CALQ illustration software will calculate the tax deductibility of the Income Care range premium, taking into account the client's marginal tax rate and the non-deductibility of the Cash Back Option premium. At time of refund, CommInsure will also calculate the portion of the refund that is taxable and non-taxable.

Table 1.

Cash back option Cost = 10% of premium	
Years in force	Percentage of premiums refunded
3	13%
4	14%
5	15%
6	16%
7	17%
8	18%
9	19%
10	20%

Summary

Income protection insurance is more affordable than some clients think. With CommInsure's Cash Back Option, clients could be eligible for a percentage of their premiums to be refunded, if there is no claim. Premiums paid for an Income Care or Income Care Plus policies are also tax deductible.

Important information

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