

Is your business or practice at risk?



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Recent developments within the life insurance environment, specifically relating to Self-Managed Superannuation Funds (SMSFs), have brought about some changes that can be adopted by people who are primarily self-employed, including those that own their own practice or business.

In addition to placing your life cover within your superannuation fund, these changes now allow for disability income protection and trauma cover policies to be held within your SMSF. The premiums for the life cover and income protection are deductible in the hands of the superannuation fund. This essentially means that the premiums for your benefits (excluding trauma products) are **paid with pre-tax dollars**.

While this may sound very attractive to have your premiums paid on a pre-tax basis, a health warning must be issued with regard to the structuring of these benefits within a superannuation fund. If, for example, a trauma claim is paid on the diagnosis of a trauma event, this payment will be paid by the insurance company to the trustee of the superannuation fund. If the 'Conditions of Release' are not met, the trustee will not be empowered to pay these funds through to the life insured. The life insured may only gain access to these funds after the age of 60 as a member of the fund.

As a note of caution, we strongly advise anybody who intends to avail themselves of these opportunities to seek professional advice from a qualified financial adviser and/or tax professional who will be in a position to provide the appropriate advice and applicability of these products in relation to the life insured's own unique set of circumstances.

How do the changes benefit you?

One of the main attractions that these changes now offer is the ability to place large sums of life cover within a superannuation fund and take advantage of **tax free lump sum pay-outs**, in the event of retirement or death. Previously a 'Reasonable Benefit Level' (RBL) was set on the payment of any lump sums or death benefits from a superannuation fund. This meant that any money paid out up to a certain level, the RBL, may have been tax-free or concessional tax and all amounts paid out over this RBL level would attract the highest rate of tax. As the RBL's provision was abolished on 1st July 2007, lump sum death cover that is paid to a taxation dependant from a complying superannuation fund can now be made without any tax implications. This means a taxation dependant will now receive these benefits **free of tax**.

A dependant is defined as:

- *Your spouse (which includes a de facto spouse and certain same-sex partners) and children under the age of 18 (including certain children of same-sex partners).*

For this purpose, 'spouse' means:

- *a person to whom you are legally married;*
- *a person (whether of the same or a different sex) who, although not legally married to you, lives with you on a genuine domestic basis in a relationship as a couple (de facto); or*
- *a person (whether of the same or a different sex) with whom you are in a relationship that is registered under a relevant law of a State or Territory.*
- *Another person who is financially dependent on you.*

More benefits...

Another vital point of interest that goes hand in hand with disability income cover is ensuring that your business expenses are still paid in the event of you becoming disabled and therefore being unable to earn an income due to injury or sickness. In this situation, your loss of earnings may result in you and your practice/business being placed under considerable financial strain while you take the time that is necessary to recuperate from the injury or sickness. In some cases, this could possibly rob you of your livelihood altogether. In addition to not being able to earn an income, there are still the overheads and expenses of your business practice that need to be paid in order to sustain the continuity and mere existence of your practice.

By securing a **Business Expenses Insurance** product, outside of your SMSF, you can overcome the hardships of a loss of income due to injury or sickness. Self-employed individuals should consider supplementing any income protection cover within their SMSF with a policy that will pay the expenses of their business which are over and above any benefits payable through a disability income protection policy.

AIA Australia's Business Expenses Insurance benefit is specifically designed for the self-employed person who needs to ensure that the fixed expenses of the business or practice can still be paid, even if he or she cannot work due to injury or sickness. In addition, a benefit for up to 12 months may also become payable if he or she becomes partially disabled.

The business expenses that are covered include, but are not limited to:

- Accounting and auditing fees.
- Regular advertising costs, postage, printing and stationery.
- Electricity, heating, gas, water, telephone and cleaning costs.
- Security costs.
- Rent, property rates and taxes.
- Membership fees, publications and subscriptions to professional bodies.
- Leasing costs of plant and equipment.
- Bank charges, interest on business loans.
- Salary and other related costs for non-income generating employees of your business.
- Net costs associated with employing a locum.

Information provided in this document is current as at 24 June 2009.

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Case study*

Bill is a successful dentist and has been running his practice from a suite in Templestowe for the past four years. Unfortunately for Bill, he wrenched his shoulder from its socket while trying to replace roof tiles on his home at the weekend. Fortunately for Bill, his financial adviser had recommended he secure a disability income protection policy as well as a business expenses insurance policy when he started his practice four years ago. Bill's injury is such that he is unable to perform the duties of a dentist that are important in producing income and, following the advice of his medical practitioner, is unable to work.

Bill contacted his financial adviser who submitted a claim to the insurance company and after the claim had been assessed, Bill received a benefit which equalled 75% of his normal income and had the expenses of his practice paid by the insurance company. In addition, the insurance company also helped to pay for a locum to take Bill's place in the practice, while Bill recuperated at home.

* This is an example only to illustrate the potential benefit of taking out Business Expenses Insurance, and should not be relied upon as indicative of benefits payable under any Business Expenses Insurance product.

So, in summary:

Contact your financial adviser as soon as you can to review your self-managed superannuation fund with specific regard to:

- Nomination of taxation dependents for lump sum payments.
- Structuring of trauma and disability income protection products within your superannuation fund.
- Maximising tax efficiency on the payment of premiums from within your superannuation fund.
- Cover to pay for the business expenses of your practice during a period of disablement to reduce the strain on your cash flow.