



Income Protection for the Self Employed

Working a job is hard enough without the added stress of being self-employed. Often, income fluctuates, and with the onset of Covid-19, the income of freelance work and the gig-economy has dried up. If you're the major breadwinner of your family and you suffer an injury, the outcome might be disastrous. Unless you have a crystal ball, the future is uncertain.

Income protection insurance pays some of your income if you're unable to work. It can help pay your bills while you get back on your feet and recover from an injury. Income protection will pay up to 75% of your pre-tax income for a specified time if you're unable to work due to partial or total disability—but beware. There are caveats for these income protection policies and some don't fully protect the self-employed.

Income Protection Tip: Each policy is a little different, so check the details that define partial or total disability that must be met before a claim is made. You can check the insurer's website or the product disclosure statement (PDS) for the definition of exclusions.

What If You're Self-Employed?

If you're an independent consultant or contractor, a tradesperson or a small business owner, most income protection policies don't cover you if you lose a job, or if a sub-contracted job is cancelled part way through

the agreed period or project. Income protection also does not cover you for redundancy or if you suffer a down-turn of hours. As you know, if you're self-employed or the sole worker of your own business, these can be common occurrences and are part of the risk of running a business.

Income Protection Tip: If you own your business and employ staff, you are legally required to take out workers compensation, however workers compensation does not typically cover the self-employed. Income protection does.

You must satisfy certain criteria to be eligible to access income protection insurance if you are self-employed. Usually, you'll need to:

- Have been self employed in the same occupation for a minimum of two years
- Work a minimum of 20 hours per week
- Earn at least \$16,000 per annum
- Be either an Australian citizen or permanent resident worker

There may be certain high-risk occupations, such as truck drivers, that might be harder to obtain income protection insurance for, or have a longer waiting period or a shorter benefit period to compensate.

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Obtaining insurance protection may be harder because of the fluctuations of the gig economy, and also because of the impact of Covid-19 on small businesses. It may mean that applications for income protection will need more documentation to support the application.

Documentation

To apply for Income Protection insurance, you'll need to make sure your books are in order. The insurer will generally require that you provide proof of your circumstances, and could include:

- Your personal tax return
- A profit and loss statement
- Your balance sheet

How Do You Apply For Income Protection Insurance

When applying for Income protection insurance:

- 1. Select Your Policy Option:**
 - a. If your wage fluctuates, double check your intended policies and choose one that allows you to apply with your best consecutive twelve month period within the last 2 to 3 years timeframe
- 2. Choose Your Waiting Period:**
 - a. The waiting period between the time your medical practitioner states you're unable to work and when you start receiving your benefits differ per policy. Depending on the insurer, some waiting periods are between 14, 30 or 60 days, 3 or 6 months, 1 and 2 years
- 3. Choose Your Benefit Period:**
 - a. You'll need to choose how long your benefits will be paid out for. This may be 2 or 5 years, or up until age 65 or 70
- 4. Tailor Your Policy:**
 - a. You may choose to opt for more or less features such as a specific injury benefit, or skipping the waiting period to receive your monthly benefits for a predetermined time

Income Protection Tip: ITP offers a range of income insurance options so you won't have to search for hours to find a policy that will suit your needs. We'll compare plans and prices for you in the one phone call so that you are protected.

How Much Does Income Protection Cost If You're Self Employed?

The cost of income protection insurance depends on your age, occupation, gender, health and smoking status, the amount of cover you purchase, the State you live in, waiting period and benefit payout. Longer waiting periods and shorter benefit periods will usually result in reduced premiums.

Is Income Protection In Super The Same As Another Policy?

Income Protection is available through some superannuation funds, while other policies can be taken out directly with an insurer. Essentially it is the same product, although there can be some differences in how it is structured, and also how a claim is processed.

Accessing income protection through a superannuation fund might offer fewer options. There might be a reduced waiting period or benefit options to choose from. Choosing your own options to fit your personal situations and needs might be a preferable option – however it might incur extra costs.

What Other Insurance Policies Might Be Relevant?

There are other insurance policies that might be relevant if you are self-employed. Business Expenses Insurance will cover your fixed business expenses, such as rent, electricity and non-income producing staff wages if you can't work due to sickness or injury. Keyman insurance typically pays a lump sum when a key employee in a business is unable to ever work again or passes away.

Is Income Protection Insurance Tax Deductible?

Business insurance expenses are generally tax deductible. If you're listed as the policy owner, income protection premiums outside of your super fund can be claimed as a tax deduction if you have paid with your own money.

COVID Total and Permanent Disability Claims Initiative

The Financial Services Council put in place an initiative, which runs from March 2020 to the end of March 2021, so that individuals who lose their jobs, are stood down or have reduced working hours due to COVID-19 and are insured with participating life insurance companies will not have their total and permanent disability (TPD) cover affected. Life insurance companies will confirm their participation by making a public statement and announcement on their website, including details of how they will apply the initiative.

Income Protection Tip: It's important to understand that there will be a waiting period before you'll be able to access payments if you do meet the policy guidelines, plus it won't cover you for lost income if you are stood down or become unemployed.

What Are The Key Benefits Of Income Protection Insurance?

Although some might look at it as an extra cost, there are several key benefits in deciding to opt for income protection insurance.

- Income protection provides up to 75% of your regular income if you are sick, injured or suffer loss of income (dependent on your policy)
- If you pay out of your own pocket, the premiums are tax deductible
- Helps you cover your bills and take care of your family if you're unable to work
- Will generally cover you 24/7 worldwide
- Will help you pay outstanding medical bills
- Offers flexible waiting and benefits periods to help with the premium cost
- Provides cash flow to take care of your businesses assets and investments.

ITP The Income Tax Professionals offer more than tax. We offer financial advice and insurance options for financial security for your business and your family. To seek a better understanding of your finance and insurance options, speak with one of our friendly professionals on 1300 136 729, or visit <https://itp.com.au/other-services/financial-advice/>.

ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.



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