



Why Do I Need Income Protection Insurance?

Life is expensive. Bills mount up quickly. Your next mortgage payment seems to come too fast. Your kids need new clothing because they've outgrown their clothes and the school fees wait for nobody. The last thing you need is an extra cost to have to pay out for.

Let's play a game of 'what if'.

Imagine the scenario above. The bills come in. You work hard to pay them. You're keeping your head above water and then something happens. You get sick. Or suffer an injury. Something out of your control might happen to you and you find you're unable to work. Nothing stops the bills from coming in, and now that you're sick or injured, there seems to be more bills and you're not able to work to pay them off.

It's not a nice thought, but there is a way to protect yourself. Income protection insurance may seem like an extra cost you can't afford, but there may come a day that you're thankful you took it out.

What Is Income Protection Insurance?

Income protection insurance pays up to 75% of your pre-tax income for a specified time period if you're unable to work due to injury or sickness. Each income policy offers different waiting and payout periods and differences in definitions for partial or total disability that must be met before a claim is made. Income Protection Insurance Tip: Most income protection policies will cover you for sickness or injury, but not for loss of income due to redundancy or downturn of hours. If you are self-employed, you'll need

a special income protection policy to cover you and will also need to provide documentation to prove that you are self-employed and eligible. An ITP Financial Advisor can help steer you in the right direction. Phone 1300 136 729 today.

Do You Need Income Protection Insurance?

Income protection provides cover in case you cannot perform your usual occupation as a result of sickness or injury. Sometimes your sickness or injury might keep you from working or making a consistent income for years. Those that are self-employed usually don't have sick or annual leave to use if you become sick or injured. Income Protection Insurance can safeguard your family or those that are dependent on you for the income you earn.

Income protection will help cover your utility bills, medical expenses and your mortgage that will minimise the financial impact of your sickness or injury. Income Protection Insurance provides an extra level of protection that could otherwise financially devastate not only you, but your family.

Not all injuries are covered by Workers Compensation or the insurance from your superannuation fund. Some of the payouts are limited in what they offer, and the waiting period could be lengthy. It's up to you to decide if you want an extra level of protection to safeguard yourself.

Why Do I Need Income Protection Insurance?

Features Of Income Protection Insurance

There are certain criteria to be considered when looking at Income Protection Insurance. Policies usually pay a monthly benefit for a specific time period and is known as the 'benefit period'. This can be up to the age of 65 or 70. The cover inside your superannuation fund often only pays for two years. You will be able to insure up to 75% of your pre-tax income.

Most policies have a waiting period, which is the amount of time between the official diagnosis of your medical professional to the time you receive your payment. Waiting periods range from 30- days to 280 days.

Income Protection Insurance Tip: Different policies offer a range of waiting periods and this is reflected in the premium. Compare insurers and different funds before making a decision.

Is Income Protection Insurance Tax Deductible?

You can claim the cost of most premiums charged by insurance companies to cover the loss of your income and this should be included on your tax return. You must have paid the premium using your own money.

There are rules for tax deductibility:

- If your income provides benefits of an income and capital nature, you'll only be able to claim the part of the premium that relates to the income benefit.
- You can't claim a policy that compensates you for physical injury or if the policy is taken out through your superannuation and your premium is deducted from your super contributions

Life insurance, trauma insurance and critical care insurances cannot be claimed.

The amount you can claim as a tax deduction is dependent on your taxable income, your tax rate and the price of your premium. Depending on your circumstances, your claims could mean a significant reduction on your premium rate that you paid.

Is Income Protection Insurance Taxed By The ATO?

If you have received payments through your income protection insurance, you must include these benefits into your tax return as income you have received and you will be taxed on the payments.

Your Cover Type

Your income protection insurance will be defined as an indemnity contract, meaning you will need to prove the amount of income you were earning before you become incapacitated at the time you took out your policy. You'll need to show your income tax assessment and other financial documentation that proves your income levels. The benefits you receive are based on the amount of income you earn.

As of 1 April 2020, agreed value policies ended for new policies. Existing policies may still be maintained, but check with your insurer.

Cover inside your superannuation account may not offer you the coverage you need according to your circumstances as they include only very basic cover and can leave you unprotected under certain events.

Taking Out Cover

Income Protection Insurance premiums depend on your age, gender, occupation, income level, medical history, hobbies and lifestyle (smoker or non-smoker). The information you provide will determine if you will be insured, how much your premiums will be and the terms and conditions of your policy.

The quality of your cover is critical. When deciding on a policy, you'll need to understand:

- What constitutes partial incapacity
- What amount your benefit cover will be
- What your waiting time will be

Insurance policies are complex and include many different clauses and tests. It's important to get professional advice so you know what you're paying for and what you will be paid out if you do need to make a claim. ITP is an independent body and not owned by a bank or insurance company. We will compare all risk insurance providers in Australia and help work out the most appropriate insurer and level of cover for you, at the best price.

If you need help choosing your cover, please feel free to give one of our friendly financial advisors on 1300 136 729 for a chat to help you understand your insurance cover and if it is appropriate for you.

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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