Understanding personal Insurance

Things you should know about life insurance

November 2024

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ZURICH Assure

Contents

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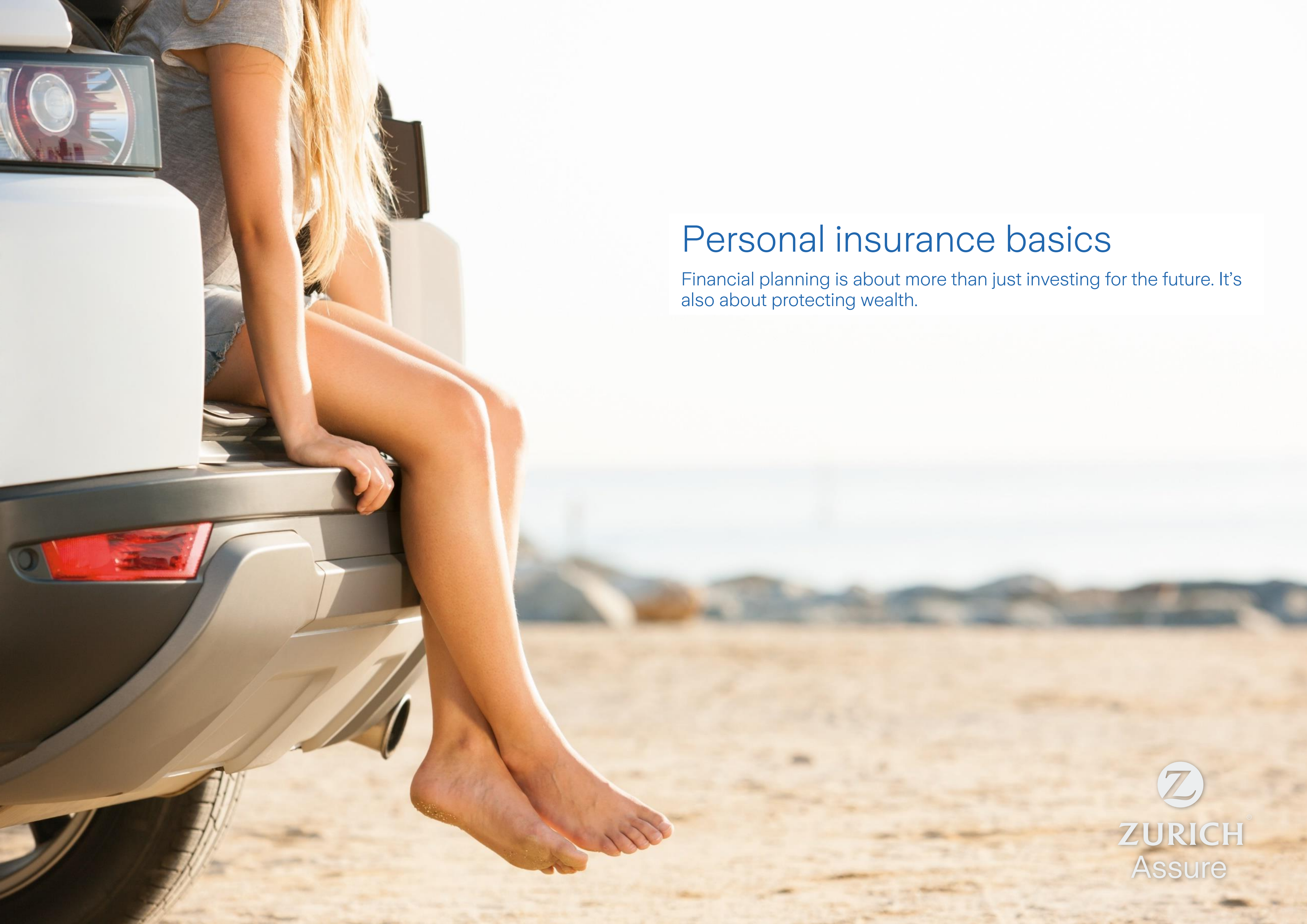

Personal insurance basics

Financial planning is about more than just investing for the future. It's also about protecting wealth.

Cover types at a glance

Life	Total and permanent disability (TPD)	Trauma	Income protection
Pays a lump sum to your beneficiaries or estate in the event of your death or terminal illness.	Pays you a lump sum if an illness or injury leaves you permanently disabled and unable to work. Similarly if you work in a home-maker role and can't perform normal domestic duties.	Pays you a lump sum in the event of certain types of serious illness or injury.	Pays you a monthly benefit to replace part of your income if you are unable to work as a result of serious illness or injury.
Can be used to pay off debts, as a replacement income, or funeral expenses.	Can be used for medical expenses, rehabilitation costs, repaying debts and replacement income.	Can be used for short term replacement income and debt repayments.	Helps to cover day-to-day costs while you're unable to work.

The common belief that "it won't happen to me" results in many people having a sound plan for wealth creation but not for protecting the very thing that generates wealth, themselves.

Personal insurance can protect your wealth accumulation strategy.

No matter how much expert advice a person receives or how well they manage their finances, there is always a risk of serious illness, injury or death. Where that leaves them and their loved ones financially can depend on the insurance cover that they have in place.

Personal insurance can provide the money needed in critical times or if the insured is no longer able to earn an income. The money can be used to help with costs such as medical bills, loan repayments and living expenses.

Personal insurance can be owned directly or may be owned via superannuation. The following information applies when the insurance is directly owned.

Life Insurance

Life insurance pays a lump sum if the insured dies or becomes terminally ill. If they die, a lump sum is paid to their beneficiaries or estate. Beneficiaries can use the lump sum to repay debt, pay for children's education or long-term care, or for any other purpose.

Life insurance policies which are owned directly for non-business purposes generally have the following features:

- Premiums for life insurance policies are not tax-deductible.
- In the event of death, the lump sum is paid tax-free to the nominated beneficiary.
- There are no restrictions on who can be nominated as beneficiary. Some restrictions may apply in the event of a claim, such as where the beneficiary is a minor.
- If a beneficiary is nominated, proceeds are paid direct to that person and bypass the estate.

In 2020, there were around **155** acute coronary events every day in the form of heart attack or unstable angina – around 12% were fatal.[1]

Total and permanent disability (TPD) insurance

TPD insurance pays a lump sum if an illness or injury is suffered which totally and permanently prevents the insured from working again.

Musculoskeletal conditions, such as back problems and pain, arthritis, and osteoporosis affected nearly **7.7 million Australians**.[2]

TPD insurance can provide cover based on inability to work again in the insured's own or any occupation to which they might reasonably be suited. It can also provide cover based on inability to work again in their occupation only, even if they could still work in another occupation to which they might reasonably be suited. A person working in a specialist occupation may gain greater protection by choosing own occupation cover.

TPD cover acquired from super funds is restricted to any occupation. However, most insurers offer optional top up cover outside super where a person is unable to work again in their own occupation but can still work in another occupation to which they might reasonably be suited.

If the insured isn't employed, TPD cover can be purchased based on a non-working or home duties definition. Your Zurich Assure financial adviser can help to determine what type of cover is most appropriate based on an individual's particular circumstances.

Premiums on TPD policies which are owned directly are generally not tax-deductible. In the event of a claim, the proceeds will be paid direct to the insured person or to their nominated beneficiary. The proceeds are generally only taxable if paid direct to someone other than the insured person or a near relative.

[1] Australian Institute of Health and Welfare (2023). Heart. stroke and vascular disease: Coronary heart disease. Available from: https://www.aihw.gov.au/reports/heart-stroke-vascular-diseases/hsvd-facts/contents/summary-of-coronary-heart-disease-and-stroke/coronary-heart-disease [accessed February 2024]

[2] Australian Institute of Health and Welfare (2023). Chronic musculoskeletal conditions: Summary. Available from: https://www.aihw.gov.au/reports/chronic-musculoskeletal-conditions/musculoskeletal-conditions/contents/summary [accessed April 2024]

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Trauma insurance

Trauma (or critical illness) insurance generally provides a lump sum upon diagnosis of a specified illness or injury.

Trauma insurance is designed to provide money to help financially after a trauma or crisis, such as a heart attack, stroke, cancer or other life-threatening illness. The payment is made regardless of whether the insured returns to work and is designed to relieve financial pressure at a time of great stress.

In 2023, it is expected that **165,000 Australians** were diagnosed with cancer, the most commonly diagnosed cancers being prostate, breast, melanoma and bowel.[3]

The financial impact of a cancer on households is growing at an estimated 6.8% per annum, with out of pocket costs continuing to be felt by cancer patients beyond the initial diagnosis and treatment period.

Premiums for trauma insurance cover are generally not tax deductible. In the event of a claim, the proceeds are generally paid tax-free. Trauma cover is not usually available from a super fund.

Income protection

Income protection, or salary continuance, provides a regular income if the insured is unable to work due to sickness or injury. This type of insurance can be particularly important if they have loans or geared investments where the loan repayments are reliant on their income.

According to the National Study of Mental Health and Wellbeing more than two in five Australians (42.9%) aged 16–85 years have experienced a mental disorder in their lifetime.

With **one in five Australians (21.5%)** experiencing a mental disorder in the previous 12 months.

Income protection provides a regular income during the period that the insured can't work. A waiting period usually applies before benefit payments commence. Generally there is a choice of waiting period between 14 days and two years. Choosing a longer waiting period may result in a lower premium.

Income Protection policies insure on an 'Indemnity' basis. This means the monthly benefit payment will be determined at the time of making a claim. It is generally based on up to 70% of the lesser of the income earned in a period prior to the claim and the insured monthly benefit.

The cost of income protection premiums is generally tax deductible, which helps to reduce the effective cost of the insurance. In the event of a claim, the monthly payments are taxable income. It is important to note that a claim for a tax deduction for the premium cost can only be made if the policy is owned outside of superannuation (otherwise the cost is deductible through superannuation).

[3] Zurich Australia Limited (2024). The Cost of Care – Volume 2. Available from: https://indd.adobe.com/embed/6acf11ae-2642-4480-b3fd-eea1c28887db [accessed June 2024]

Amount of cover

In determining the amount of insurance needed, consideration needs to be given to the potential loss that could result from various risks. Decisions need to be made as to what risks can be retained, what risks can be avoided and what risks must be transferred. Insurance is essentially about transferring the risk of potential losses to someone else (the insurance company) for a price.

The amount and types of cover that is needed depends on individual circumstances and objectives. It might include factors such as:

- relationship status,
- whether they have children,
- budget,
- how much may be required for medical, rehabilitation or funeral costs,
- how much they want to provide for dependants, and
- levels of assets and debt.

Sometimes there is a trade-off between retaining part of a risk, such as being willing and able to cover the cost of a claim excess or the gap between the total value of a risk and the amount transferred, and paying the cost of insurance. Therefore, in addition to addressing the potential risks, consideration also needs to be given to the cost of obtaining insurance cover.

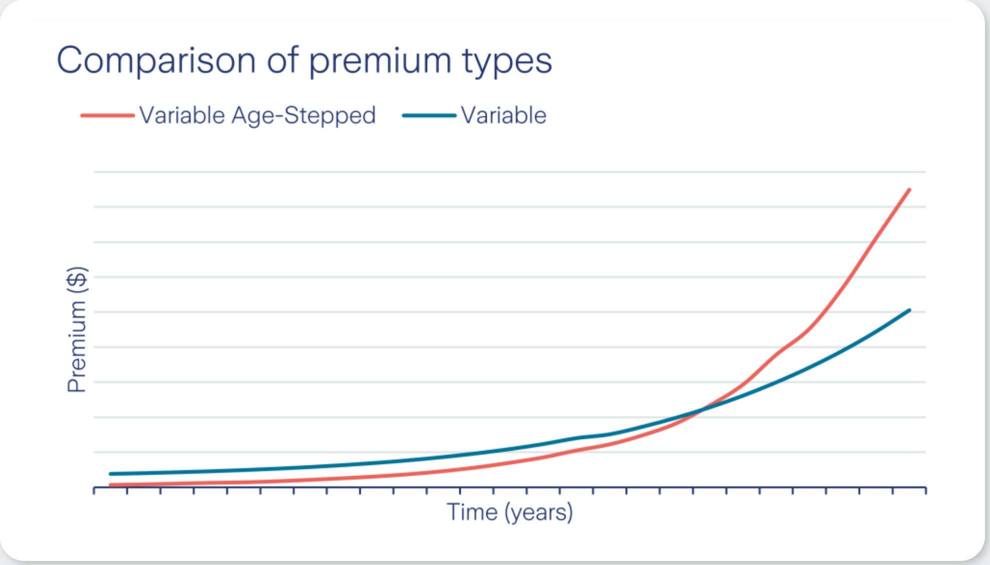
Use our calculator to work out your needs

Types of premiums

Premiums for personal insurance can be structured as 'Variable age-stepped' or 'Variable'.

Variable age-stepped premiums (previously called stepped premiums) are based on the insured's age and increase each year. At younger ages, variable age-stepped premiums may be lower compared to variable premiums, but variable age-stepped premiums can increase significantly as you get older.

Variable premiums (previously called "level premiums") are set at the start of the policy and do not change based on the insured's age, although increases may still occur due to rises in premium rates and policy fees. Variable premiums may be more expensive than variable age-stepped premiums initially, but the total premium cost may be less if the policy is held for a long time.



Other things you should know

- Depending on an individual's circumstances and health, an additional premium (known as a loading) may be added to insurance premiums. In some cases, the insurance company may apply an exclusion, which means the insurance will not be paid if the excluded event, sickness or injury occurs.
- An insurance policy will end if premiums are not paid. Some life companies provide a short window of opportunity to pay premiums to maintain cover if the premium due date has been missed. If a policy ends and the insured's health or circumstances have changed since policy inception, it may impact whether the same cover is given again at the same premium.
- It is important to understand the benefits included in an insurance policy, as well as optional extras. Benefits included are at no extra cost however optional extras may increase the premium.
- If an insurance policy is owned by a superannuation fund or held for business purposes the implications may be different than those outlined above.

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Insurance in super

Owning insurance inside superannuation can be a tax-effective way to cover the cost of premiums and can reduce the impact on a person's cash flow

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What are the benefits?

- Premiums may be paid tax-effectively.
- Cash flow may improve because premiums need not be paid personally.
- After-tax contributions to super may be eligible for the co-contribution to help cover the cost of premiums.
- Some funds automatically accept their members for cover without requiring a health check.
- Employer superannuation fund members may be eligible for group cover which typically has a lower premium cost than individual policies with fewer underwriting requirements.
- In the event of a successful claim, proceeds may be able to be taken as a superannuation pension with tax-free earnings on the assets supporting it.

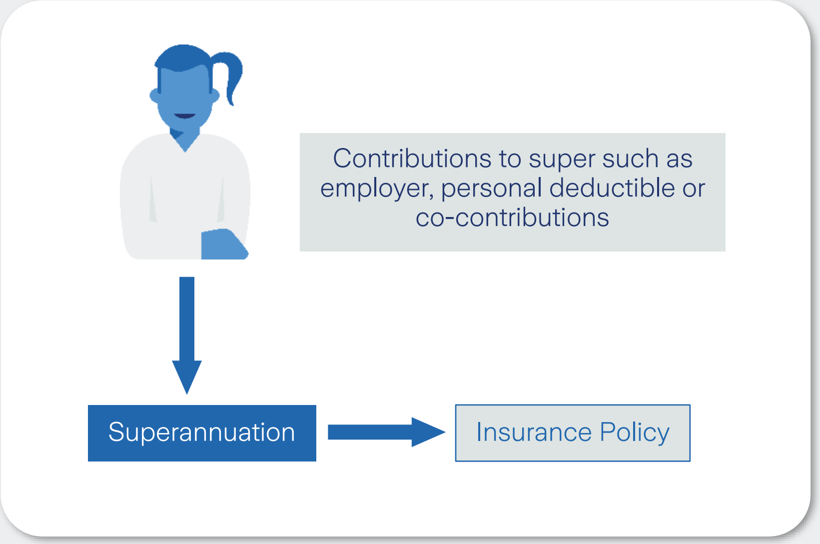
How does insurance in superannuation work?

Certain types of life insurance can be owned inside superannuation. These insurances generally include life cover, any occupation total and permanent disablement (TPD) and salary continuance.

Owning insurance inside super means that the insurance policy is owned by the trustee of the super fund on behalf of its member instead of being owned directly by the member. This ownership structure allows the member to take advantage of tax concessions associated with super, however it can also have some disadvantages (as noted under 'Disadvantages of owning insurance in super' below).

Paying the premium

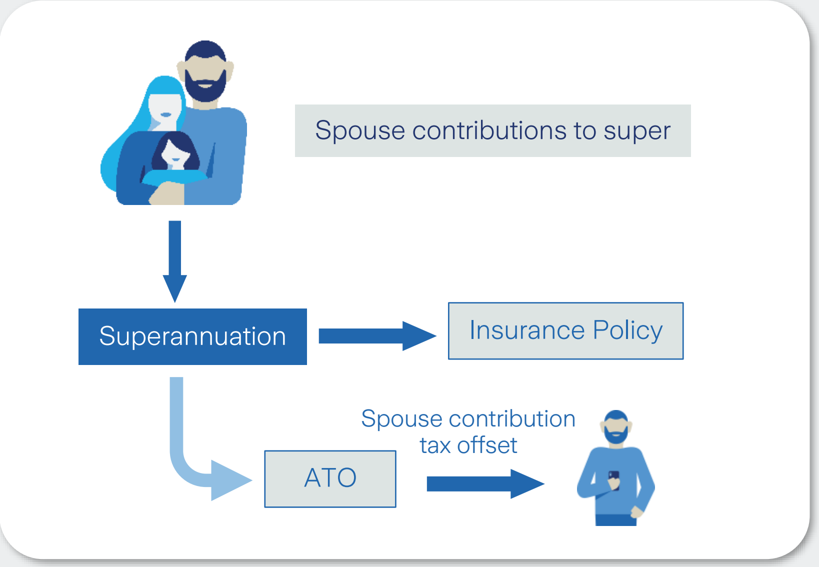
The superannuation tax concessions offer a tax-effective way to pay insurance premiums. This is because premiums can be paid from pre-tax contributions; such as superannuation guarantee (SG), salary sacrifice or personal deductible contributions.



These contributions are generally subject to 15% contributions tax in the super fund. However, a super fund may be eligible to claim a tax deduction for the cost of insurance premiums. Plus some super funds will also pass this tax saving on through a reduction in the contribution tax (in some cases to 0%).

Low-income earners and members of a couple can also benefit.

- Low-income earners who are eligible for the superannuation co-contribution can use the co-contribution to help cover the cost of insurance premiums.
- A person who is a member of a couple, where spouse contributions (which may entitle the contributor to a spouse contribution tax offset of up to $540) could be used to pay premiums.



Another advantage of owning insurance inside super can be the reduced impact on a person's cash flow:

- If there are periods where a person is not making contributions to super, their accumulated savings can be used to continue paying premiums and thereby continue the cover.
- If they are a member of a couple, their spouse's concessional contributions may be able to be split into your account to pay for the cover.
- If a person has more than one super account, rolling some funds from another account into the account with the insurance cover is another option to help pay for the cover and can sometimes enable a discount to the premium cost of up to 15%.

Making a claim on a super-owned policy

Owning insurance inside super can also provide advantages in the event that a person makes a successful claim on their insurance policy. Plus, if their claim is not successful, the super fund trustee must help to challenge the insurer if it disagrees with the decision.

Most superannuation funds allow a person to nominate who should receive their benefits and how much. This can avoid them needing to deal with superannuation through your will.

In the event of an insurance claim on a policy owned within super, the proceeds will be paid to the superannuation fund as the owner of the insurance policy. The trustee of the superannuation fund will then determine how and when the proceeds should be paid in accordance with the fund's trust deed and superannuation law if the trustee does not hold a binding nomination of beneficiaries.

Advantages of a super-owned policy

Some of the advantages compared with non-super owned policies include:

- In respect of TPD cover, if all of the proceeds aren't needed immediately, some of the proceeds may be left inside super where the earnings can accrue tax-effectively (earnings are taxed at a maximum rate of just 15%).
- Retaining TPD proceeds inside super also enables the lump sum tax that applies if TPD proceeds are withdrawn from super before age 60 to be deferred (or eliminated).
- TPD proceeds may be able to be used to start a superannuation pension. The pension provides regular cash flow and earnings on the assets supporting it are tax-free.
- In respect of life cover, a superannuation fund may allow beneficiaries to start a pension, or pay multiple pensions if the death benefit is to be paid to more than one person (e.g. spouse and children). The pension can provide the beneficiaries with regular income and earnings on the assets supporting it are tax-free.

Disadvantages of a super-owned policy

There are a number of disadvantages of owning insurance inside super compared to owning it outside of super. The following disadvantages need to be weighed up against the advantages outlined above.

- Insurance policies owned through superannuation may be more restrictive, or have less features and extras, compared to policies owned outside of super.
- Since 1 July 2014, new policies for TPD (own occupation) or trauma cannot be owned inside super.
- Depending on the insured's circumstances, in the event of a successful insurance claim, it could take a superannuation trustee longer to process and pay a benefit than may be the case for insurance owned outside of super. This is especially so for death benefits in cases where the trustee must pay an estate and needs to receive a copy of probate issued by a court.
- Using an accumulated super balance to pay insurance premiums can reduce superannuation savings unless contributions are made to cover them, because every dollar spent on premiums is one less dollar invested in the super fund. So, rather than paying for insurance using current cash flow, it is effectively paid from future retirement cash flow. If retirement savings end up being insufficient for a person's needs, they may need to work longer to save more for retirement or reduce their level of retirement income. Due to the effect of compounding, the longer until retirement, the greater the potential impact of the forgone investment earnings.
- TPD proceeds paid from superannuation may be taxable if withdrawn as a lump sum prior to age 60, whereas TPD proceeds paid from a policy owned outside of super will generally be paid tax-free.
- Life insurance held inside super will be paid out as a superannuation death benefit. If paid to a non-tax dependant, tax of up to 32% may apply. Life insurance owned outside of super for non business purposes is generally paid tax-free.
- Superannuation trustees may choose to pay a superannuation death benefit to someone other than the intended beneficiary unless the fund permits binding payment directions to be made. Binding directions generally need to be renewed every three years.

Protecting your superannuation reforms

The Protecting Your Superannuation reforms were designed to protect superannuation savings from reduction from insurance premiums. They were also designed to reduce unintended multiple low balance accounts.

The reforms included the following changes:

- Fund members with balances under $6,000 whose accounts have been inactive for 16 months may have their accounts paid to the Australian Tax Office (ATO). The ATO takes proactive steps to consolidate this with the member's active super fund.
- Super funds must cancel insurance on accounts that haven't received contributions for at least 16 months. A fund will contact a member if their insurance is about to end. If they want to keep the insurance through super, they must tell their super fund or make a contribution to that account. They may want to keep their insurance if they don't have any other insurance through another fund or insurer and they have a particular need for it (e.g. they have children or other dependants, or work in a high-risk job).

Other things you should know

- If cancelling an insurance policy to purchase a new policy in super, it is important to ensure the new policy is in place before cancelling the old policy to ensure continuous cover.
- Concessional contributions to super are generally subject to 15% tax in the super fund. However, if a person earns more than $250,000 per annum, an additional 15% tax may apply.
- Concessional contributions are subject to contribution caps, which limit the amount that can be contributed into super.
- Insured persons should take into account their insurance premiums when self assessing whether they may exceed their individual concessional contributions cap.

Superannuation death benefits

A person can take steps to enable benefits to be paid direct to a superannuation dependant or their estate.

When a person dies, their will does not automatically apply to payments of superannuation death benefits.

Upon death, a person's superannuation benefits do not need to be paid into their estate – a person can take steps to enable them to be paid direct to a superannuation beneficiary instead.

This can be achieved by providing a death benefit nomination to their superannuation fund.

What are superannuation benefits?

- A superannuation death benefit is typically an account balance plus any life insurance proceeds from the fund's insurer.
- Death benefit can be paid in lump sum or pension form depending on the fund's own rules.
- Where available, a valid death benefit nomination can direct the fund to pay specified dependants, the person's estate or a combination of them.
- Without one, the fund trustee must follow payment rules set by the fund rules. In some cases, these rules require the trustee to decide who to pay and how much – with a result that may not be what the deceased would have wanted and lead to uncertainty and disputes between beneficiaries.
- Importantly, a valid binding death benefit nomination can enable the benefit to bypass a person's estate, and be paid quickly to the selected beneficiaries.
- Tax law typically divides a death benefit into 'untaxed', 'taxed' and 'tax-free' amounts. Each recipient beneficiary's circumstances dictate any tax applicable to the 'taxed' element.

How do superannuation death benefits work?

Upon death, a person's superannuation fund will usually pay their accumulated super balance plus the proceeds of any insurance benefits (the death benefit) to the member's estate or to someone who meets the definition of 'superannuation dependant'.

A 'superannuation dependant' has a special meaning:

- a current spouse (legal or de-facto, including same-sex)
- a child (including step-children or adopted children)
- a person who is financially dependent upon the deceased person at the time of their death
- a person in an interdependency relationship with the deceased person at the time of their death.

Where there is a valid Will, a death benefit payable to an estate is paid to the executor. The executor then distributes the benefit according to the terms of the Will.

Where there is no valid Will either:

- fund rules might specify different payment arrangements to avoid the need to pay the estate, such as a hierarchy of dependants; or
- intestacy law will require a court to issue 'letters of administration' to establish the estate so the payment can be made. The estate is then distributed under intestacy rules set by law.

Death benefits can be paid as lump sums or as pensions or both. However, tax law only permits pensions to be paid to a spouse or to a child of the deceased who is:

- Under age 18,
- Under age 25 if they were financially dependent on the deceased person, or
- Suffering from a qualifying disability.

Beneficiary nominations

Most super funds allow their members to make some kind of death benefit nomination. The three most common nomination types are outlined below. Each fund is different, and the types of nominations available and their operating rules can differ. So it is important to consult each fund's Product Disclosure Statement for full information.

Binding nomination	Non-lapsing nomination	Non-binding nomination
Effectively binds the trustee to pay your death benefit in accordance with your wishes.	Usually binds the super fund trustee to pay your superannuation death benefit in accordance with your wishes.	Compels the insurer to pay your death benefit in accordance with your wishes.

Binding death benefit nomination

- This nomination is binding on the super fund trustee if it is valid at the date of death. To be valid, the nomination must be in favour of one or more superannuation dependants who remain living, a person's estate or a combination of them. It must be in writing and signed by the member and two witnesses over the age of 18 who are not a nominated beneficiary.
- Binding nominations only last for three years. Unless renewed, the fund trustee must follow payment rules set by the fund rules. In some cases, these rules require the trustee to decide who to pay and how much – with a result that may not be what the deceased would have wanted and lead to uncertainty and disputes between beneficiaries. It is also good practice to review the nomination regularly (preferably annually) to ensure the nomination continues to be appropriate. A binding nomination only binds the trustee as to who will receive the benefit; it does not bind the trustee as to whether the benefit should be paid as a lump sum or pension.

Non-lapsing death benefit nomination

- This nomination is another form of binding direction to the super fund trustee but does not expire after 3 years. To be valid, typical requirements are that the trustee must:
  - have accepted the nomination when given;
  - nominated beneficiary(ies) are either superannuation dependents who remain living, the person's legal personal representative (a person's estate) or a combination of them;
  - meet and remain valid under any additional conditions specified in the fund trust deed.
- A non-lapsing nomination only needs to be completed once and can be cancelled, changed or replaced at any time. As it does not expire after three years, there are risks where a person's circumstances change. Some funds have safeguards that can invalidate a non-lapsing nomination such as in the event of separation from a partner, but they differ between funds not all funds have them. In any case, it is good practice to review the nomination regularly to ensure that it continues to be appropriate

Non-binding death benefit nomination

- A non-binding nomination enables the super fund trustee to know a deceased member's wishes when deciding who among their superannuation dependants and estate to pay and how much each should receive. Trustees often follow those wishes, but have discretion to override the nomination and must do so where the trustee considers that it should.
- When deciding on the most appropriate beneficiaries to receive a payment and the amount each should receive, trustees often consider it necessary to first attempt to identify all potential beneficiaries. This investigation and the decision making process can cause delays and lead to disputes between beneficiaries and an outcome that may not reflect the member's wishes.

Taxation of death benefit

There is a smaller class of 'tax-dependant' that can receive superannuation death benefits tax free:

- a spouse (legal, de-facto or former, including same-sex)
- a child under age 18 (including a step-child or adopted child)
- any other person financially dependent on the deceased at their death
- any other person in an interdependency relationship with the deceased at their death.

People outside that class pay a higher rate of tax on a superannuation death benefit which depends on whether it is paid as a lump sum or a pension and each beneficiary's own circumstances. For example, life insurance forming part of the superannuation death benefit paid to a non-tax dependant can create an 'untaxed element' which attracts a higher tax rate.

Tax rates on death benefits paid as a lump sum

Tax components	Tax rate if paid to a tax-dependant	Tax rate if paid to a non-tax dependant
Tax-free	Nil	Nil
Taxed Element (taxable)	Nil	15%
Untaxed Element (taxable)	Nil	30%

Medicare levy may also apply

Tax rates on death benefits paid as a pension

Tax components	Tax rate if paid to a tax-dependant	Tax rate if paid to a non-tax dependant
Tax-free	Nil	Nil
Taxed Element (taxable)	Nil	Marginal rate* less 15% offset
Untaxed Element (taxable)	Marginal rate less 10% offset	Marginal rate^

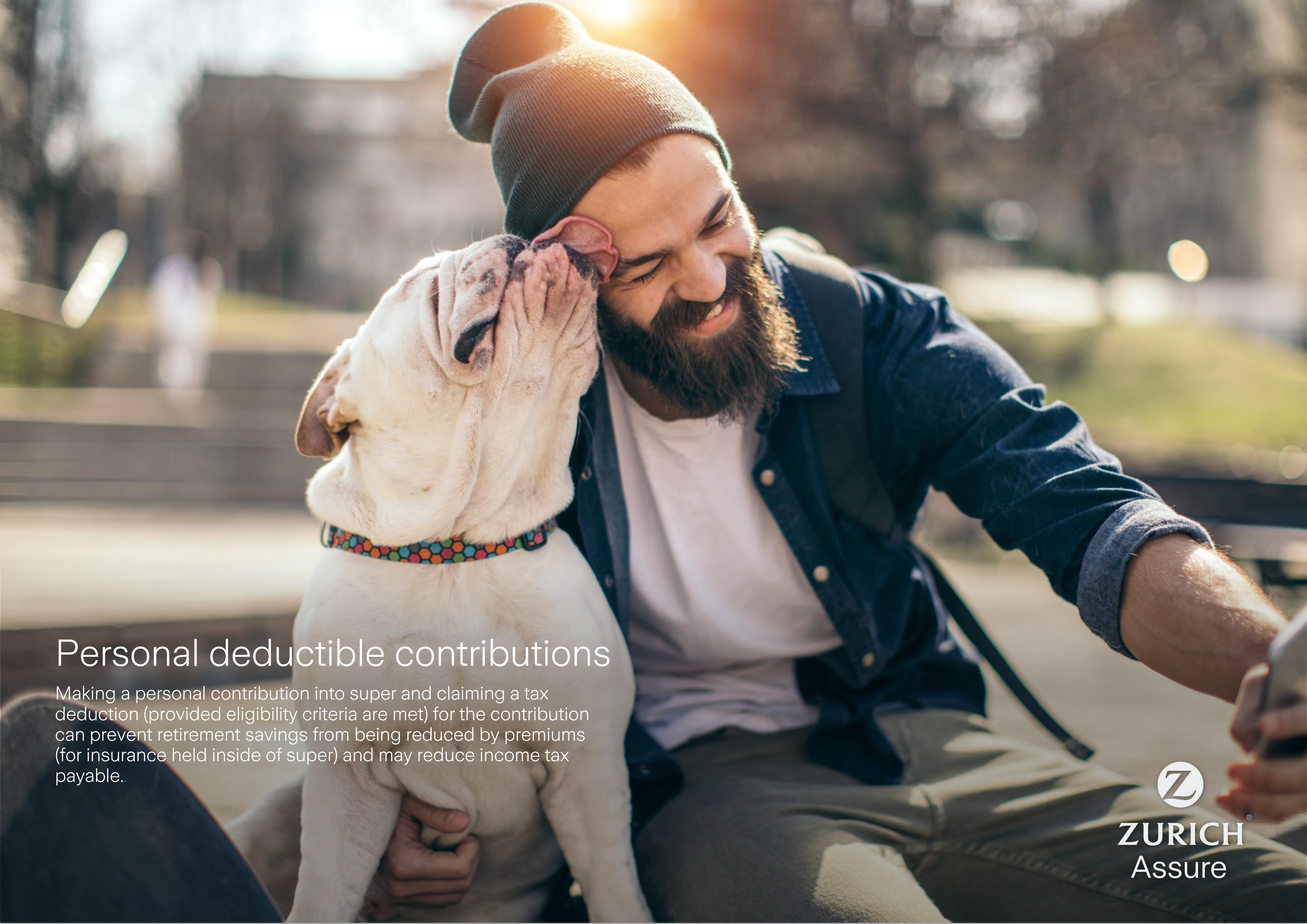
Medicare levy may also apply
* Nil tax will apply once turns age 60
^ Tax offset of 10% applied once recipient turns age 60

A death benefit pension paid to a child under age 25, stops when the child reaches age 25. Any remaining balance is then paid to them as a tax-free lump sum.

Other things you should know

- In certain circumstances, either type of binding nomination can be overruled by the courts. This risk can be minimised if the binding nomination is considered in conjunction with a Will.
- Death benefit nominations should be reviewed regularly to accommodate for changes in the person's circumstances, or those of a nominated beneficiary, that could make the nomination no longer appropriate.

When considering who might be an appropriate beneficiary, the beneficiary's Centrelink and tax circumstances should be considered.



Personal deductible contributions

Making a personal contribution into super and claiming a tax deduction (provided eligibility criteria are met) for the contribution can prevent retirement savings from being reduced by premiums (for insurance held inside of super) and may reduce income tax payable.

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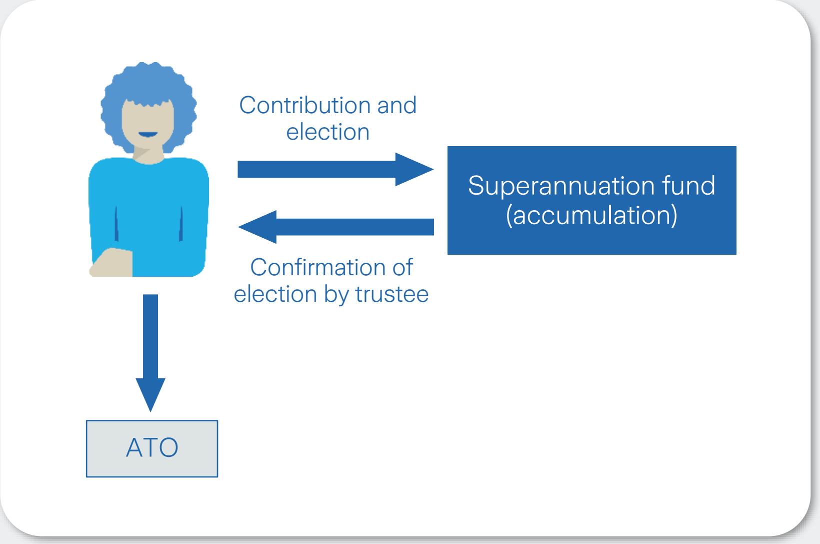
What are the benefits?

- Retirement savings can accumulate tax-effectively because concessional contributions to super are generally taxed at 15% instead of at the marginal tax rate (up to 47% including Medicare Levy).
- A tax deduction for the amount of a concessional contribution made within the government limit may reduce taxable income and may also reduce the amount of income tax payable.
- Contributing to cover the cost of life insurance preserves the value of existing retirement savings and does not disturb them from getting a higher after-tax rate of return compared to investing outside of super. This is because earnings inside super are taxed at a maximum rate of just 15%, whereas earnings from non-super investments are generally taxed at the marginal tax rate.

How do personal deductible contributions work?

To be eligible to contribute to super, a person must generally be under age 75. For those aged between 67 and 75, the work test must be met in order to claim a tax deduction. The work test means being gainfully employed for at least 40 hours in any 30 consecutive day period in the financial year in which the contribution is made.

Prior to 1 July 2017, personal deductible contributions were only available to those who met a '10% maximum earnings as an employee test'. This test has now been abolished, so most people who are eligible to contribute to super can now make personal deductible contributions for any gap between all their employer contributions and the concessional contributions cap.



Claiming a tax deduction

Before a tax deduction can be claimed for a personal contribution, a 'notice of intent to claim or vary a deduction for personal super contributions' must be lodged with the super fund that received the contribution, and that super fund must provide an acknowledgement notice. A person can only lodge a notice while still a member of the super fund and usually only when the super fund still holds the contribution or part of it (e.g. the amount cannot have been rolled over or withdrawn in full).

Where multiple contributions have been made to more than one super fund, a notice will need to be given to each super fund.

If a notice is not given by the required time, and no acknowledgment notice is received, a tax deduction cannot be claimed and the super fund will treat the contribution as a non-concessional contribution.

The timeframe for providing a notice of intent to claim or vary a deduction for personal super contributions is the earlier of:

- the day a personal tax return for the financial year is lodged;
- the end of the income year following the year in which the contribution was made;
- commencing an income stream from the fund;
- withdrawing or rolling money out of the fund; or
- lodging an application to split contributions to a spouse.

The super fund will send an acknowledgement notice confirming receipt of the notice of intent and the deductible amount. Once this acknowledgement has been received, a deduction can be claimed. A deduction reduces taxable income which in turn should reduce the income tax payable.

Personal deductible contributions are taxed at 15% in the super fund (unless a person earns more than $250,000 per annum in which case an additional 15% tax may apply).

Varying a notice of deductibility

Once a notice is lodged with a super fund, it cannot be revoked or withdrawn and can only be varied to reduce the amount of the deduction being claimed. The amount of the deduction claimed may be reduced to nil if desired.

Variations to increase the amount of the deduction cannot be made. In the event that there is an increase to the amount of the deduction being claimed, another notice of intent form is required to be lodged with the receiving super fund (within the required timeframe explained above) to claim the increased amount as a deduction.

There is no time limit for requesting a variation if the reason is because the ATO disallowed the deduction (in whole or in part) except where the person is no longer a member of the fund, the fund no longer holds the contribution or the fund has commenced to pay an income stream. In any other circumstance, any request for variation must be made by the earlier of the day a personal tax return is lodged for the relevant year or the end of the following financial year.

Contribution caps

The annual concessional contributions cap for the 2024/25 financial year is $30,000.

If a person has a total superannuation balance of less than $500,000 on 30 June of the previous financial year, they may be entitled to carry forward any unused concessional contributions cap amounts for a rolling 5 year period. The first year unused concessional contribution cap amounts may be used is the 2019/20 financial year. Unused cap amounts that have not been used after 5 years will expire.

If they exceed the concessional contributions cap, excess contributions may be taxed at their marginal tax rate (with a 15% tax offset) plus an interest penalty may apply. They can elect to have up to 85% of excess contributions refunded from super – any amounts not refunded will count towards their non-concessional contributions cap.

The concessional contributions cap is indexed in line with average weekly ordinary time earnings (AWOTE) in increments of $2,500 (rounded down).

Other things you should know

- A deduction for a contribution can only reduce taxable income to nil. It cannot add to or create an income loss.
- For a person aged over 75, deductions can only be claimed for contributions made before the 28th day of the month following the month in which they turned age 75.
- Personal deductible contributions are a reportable super contribution. This means the contribution is not included as assessable income, but is included on a tax return for the purpose of determining eligibility to certain benefits, concessions and obligations.
- Eligibility for deduction should be confirmed with an accountant or tax agent as well as the amount of deduction that is appropriate to the overall tax situation.
- All contributions to super are preserved until a condition of release is met. You need to be comfortable that you won't be able to access your superannuation until you meet a condition of release (such as turning age 65).

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