Passing on the tax deduction for insurance in superannuation

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Premiums for life, TPD and income protection inside superannuation are generally tax deductible to the superannuation fund that owns the insurance policy. A superannuation fund is generally subject to a 15% tax rate on its income. Therefore, the tax deduction for the insurance premiums reduces the tax payable on this income by 15%. The superannuation fund generally passes back these tax savings to the member.

This paper outlines the ways in which the tax deduction may be passed on to members where AIA Priority Protection life or disability insurance is owned by the AIA Insurance Superannuation Scheme No2 (the Scheme), the member's SMSF, or the member's platform super fund where that fund is one of AIA's PPPI partners.
Note that this paper does not discuss personal tax implications of contributions to superannuation.

Owner	Payment method	Does the superannuation fund pass back the 15% tax saving from the tax deduction to the member?	Amount required as % of premium	Where the tax benefit is applied
AIA Insurance Super Scheme No2	Enduring rollover (from a complying and taxed fund[1])	Yes	85%	No tax is payable on the rollover into the Scheme. **The 15% upfront rollover rebate[2] represents the tax saving the fund will get from claiming the premium as a tax deduction against other income of the fund.** *Note that clients will generally have paid tax on amounts in the transferor superannuation fund.*
	Concessional contribution	Yes	100%	Usually 15% contributions tax is deducted on concessional contributions. As the contribution is used to pay for an insurance premium which is tax deductible, the Scheme does not pay tax on this amount. **The concessional contribution does not need to be grossed up to account for this tax**.
	Non-concessional contributions	No	100%	The tax benefit is not passed back as the contribution may be converted to a concessional contribution through an s290.170 notice of intent to claim a tax deduction and therefore the contribution may be assessable for tax as a concessional contribution at a later date. If so, the premium deduction will offset it as above.
	Rollover from untaxed fund[3]	Yes	100%	15% tax would normally be payable on the untaxed element of the rollover. As the rollover is used to pay for an insurance premium which is tax deductible, the Scheme does not pay tax on this amount. Therefore the amount does not have to be grossed up to account for tax when calculating the amount to rollover to pay the premium.
SMSF / Platform	Any	Yes	100%	The SMSF or platform will claim the deduction for the premium against other assessable income of the fund and generally **pass the 15% tax saving to the member's account**.
Life Insured	Any	N/App	100%	Life and TPD premiums are not tax deductible to an individual. Income protection premiums are tax deductible against an individual's personal income.

1 A taxed fund means the fund pays tax on income and earnings. This type of fund will generally comprise of a taxable component – element taxed and a tax-free component. Most superannuation funds are taxed but some are untaxed - see note 3.
2 'Rebate' is an AIA product specific term that refers to the method that the AIA Insurance Super Scheme No2 uses to pass back the tax savings for the tax deduction where a member is paying by enduring rollover from another superannuation fund.
3 Untaxed funds will have a taxable component – element untaxed as no tax has been paid on contributions or earnings on this component. These types of funds are generally public sector defined benefit superannuation schemes.