

Income Disability Benefit Tax Rules

Policyholder (PH) Tax status	Life insured (LI)	Premiums tax deductible	Proceeds taxability		Momentum action
			Policyholder as recipient	Life insured as recipient	
Income protection benefit, Temporary income protection benefit, Functional protector benefit Note – please ensure the benefit is available on a specific Myriad policy before advising the client					
Natural person	PH and LI is the same person	No	Included in gross income Exempt due to section 10(1)(gl) Therefore not subject to income tax		No tax deducted, no certificates issued iro premiums paid IT3(a) issued iro benefit paid
Trust with natural persons as beneficiaries – family trust	Trust insures a trustee or beneficiary	No	Yes, included under par (a) of the gross income definition and no exemption applies Subject to income tax	Yes, included under par(a) of gross income definition and no exemption applies Subject to income tax	No action
Sole proprietor	PH and LI is the same person	No	Included in gross income Exempt due to section 10(1)(gl) Therefore not subject to income tax		No tax deducted, no certificates issued iro premiums paid IT3(a) issued iro benefit paid
Non-taxable institution	Institution insures the life of an employee	No	Not subject to income tax	Yes, included under par (d) of gross income definition and exempt under section (10)(1)(gG) Not subject to income tax	No action
CC/Co/Business Trust where taken for benefit of employee (Also applies if sole proprietor insures life of employee for benefit of the employee)	Business insures the life of an employee	Yes – s 11(w)(i) Premium has to be taxed in hands of employee as fringe benefit	Not subject to income tax	Yes, included under par (d) of gross income definition and exempt under section (10)(1)(gG) Not subject to income tax	No action
CC/Co/Business Trust where taken to protect the business	Business insures the life of an employee	Yes – s 11(w)(ii) if all requirements are met	Yes, included under par (m) If premium was tax deductible then no exemption applies and the proceeds are taxable If premium was not tax deductible then the section 10(1)(gH) exemption and proceeds not taxable	N/A	No action

Policyholder (PH) Tax status	Life insured (LI)	Premiums tax deductible	Proceeds taxability	Momentum action
			Policyholder as recipient	
Business overheads protector and Business protector benefit Note – please ensure the benefit is available on a specific Myriad policy before advising the client				
Sole proprietor	PH and LI is the same person	No	Included in gross income Exempt due to section 10(1)(gl) Therefore not subject to income tax	No tax deducted, no certificates issued iro premiums paid IT3(a) to confirm benefit payments made
Sole proprietor	Sole proprietor insures an employee for the benefit of the sole proprietor	Yes – s 11(w)(ii) if all requirements are met	Yes, included under par (m) If premium was tax deductible iro section 11(w)(ii) then no exemption applies and the proceeds are taxable If premium was not tax deductible then the section 10(1)(gH) exemption applies and the proceeds are not taxable	No tax deducted, no certificates iro premiums paid IT3(a) to confirm benefit payments made
Non-taxable institution	Institution insures the life of an employee	No	Not subject to income tax	No action
CC/Co/Business Trust where taken to protect the business	Business insures the life of an employee	Yes – s 11(w)(ii) if all requirements are met	Yes, included under par (m) If premium was tax deductible iro section 11(w)(ii) then no exemption applies and the proceeds are taxable If premium was not tax deductible then the section 10(1)(gH) exemption applies and the proceeds are not taxable	No action

Relevant extracts from the Income Tax Act

Applicable to premiums paid

Section 11(w)(i)	<p>The requirements for the premiums to be tax deductible, are as follows:</p> <ul style="list-style-type: none"> - The policy relates to the death, disablement or severe illness, including policies with cash values, of an employee/director of the taxpayer, and - The premium paid by the employer is deemed to be a taxable benefit (in terms of the Seventh Schedule) granted to the employee/director. Therefore the life insured pays income tax on that premium.
Section 11(w)(ii)	<p>Section 11(w)(ii) applies in respect of company or employer-owned policies, where the policy is on the life of a director, member or employee. To qualify for a tax-deductible premium, the following requirements must be met:</p> <ul style="list-style-type: none"> - The taxpayer is insured against any loss by reason of death, disablement or severe illness of an employee or director; and - The policy is a risk policy without a cash value; and - The policy is owned by the tax payer at the time of paying the premiums; and - If the policy is entered into after 1 March 2012, the policy agreement states that Section 11(w)(ii) applies to the premiums payable under the policy. <p>If the requirements are met and the selection is made for Section 11(w)(ii) to apply to the premiums payable on the policy, the premium will be tax deductible and the proceeds will be taxable.</p>

Applicable to proceeds received

Inclusion in gross income:

Par (a)	Any amount received or accrued by way of annuity, including any amount contemplated in the definition of “living annuity” or the definition of “annuity amount” in section 10A (1), other than an amount contemplated in paragraph (d) (ii);
Par (d)	<p>Any amount, incl a volunatry award, received or accrued:</p> <ul style="list-style-type: none"> (i) in respect of the termination/loss etc of employment or the appointment or employment, (ii) by a person or dependent or nominee of the person, directly or indirectly, in respect of proceeds from a policy of insurance where the person is or was an employee or director of the policyholder, (d)(ii) or (iii) by a person, dependent or nominee of the person in respect of any policy of insurance (other than a pure risk policy) that has been ceded to: <ul style="list-style-type: none"> - the person or dependent or nominee of the person, for the benefit of that person, dependent or nominee.

Par (m)	Any amount received or accrued in respect of a policy of insurance of which the taxpayer is the policyholder, where the policy relates to the death, disablement or severe illness of an employee or director (or former employee or director) of the taxpayer, including by way of any loan or advance: provided that any amount so received or accrued shall be reduced by the amount of any such loan or advance which is or has been included in the taxpayer's gross income.
Exemptions:	
Section 10(1)(gG)	<p>Any amount received by or accrued to a person as contemplated in par (d) of the gross income definition -</p> <ul style="list-style-type: none"> - in the case of a policy that is a pure risk policy, if the amount of premium paid iro that policy by the employer of the person has been deemed to be a taxable benefit of the person in terms of the 7th Schedule since the later of: <ul style="list-style-type: none"> - the date on which the employer or company became the policyholder of that policy, or - 1 March 2012. - in the case of any other policy, if an amount equal to the aggregate of the amount of any premiums has been included in the income of the person as a taxable benefit in terms of the 7th Schedule since the date on which the policy was entered into.
Section 10(1)(gH)	<p>Any amount received or accrued in respect of a policy or insurance where-</p> <ul style="list-style-type: none"> - the policy relates to the death, disablement or severe illness of an employee or director or former employee or director of the person that is the policyholder and - no amount of premiums payable iro that policy on or after 1 March 2012 is deductible from the income of that person for the purposes of determining the taxable income derived by the person from carrying on any trade.
Section 10(1)(gl)	<p>Any amount received or accrued in respect of a policy of insurance,</p> <ul style="list-style-type: none"> - relating to the death, disablement, illness or unemployment of a person who is: <ul style="list-style-type: none"> - the policyholder or - an employee of the policyholder iro that policy - to the extent to which the benefits in terms of the policy is paid as a result of death, disablement, illness or unemployment.