Your Knowledge Newsletter

AP Partners

August 2019 / No. 6

Tax treatment of compensation from financial institutions

By 30 June 2019, five major financial institutions paid $119.7 million in compensation for poor financial advice to 6,318 customers. The question is, how are these payments treated for tax purposes?

The tax treatment varies according to why the compensation was paid and who the payment was made to. Compensation payments are made for a number of reasons including fee for no service, deficient advice, or overcharging for insurance premiums for death or disability insurance cover. Each one has different tax consequences.

In some cases, the compensation will be assessable income and in others will impact the cost base of any underlying investment. If an investment has already been sold, the compensation may trigger a capital gains tax liability and in some cases it will be necessary to amend prior year tax returns.

There may also be GST consequences. In general, the GST treatment will mirror the GST consequences for the financial institution that made the payment. If you or your superannuation fund claimed GST credits, these may need to be repaid where a compensation amount includes a GST component.

Managing the tax treatment of compensation payments can be tricky. If you or your superannuation fund has received a compensation payment, please let us know as soon as possible so we can assist you get the tax treatment right.

Agostinelli Perlen Pty Ltd
Chartered Accountants
Level 1, 200 Lygon Street Carlton Victoria 3053
+61 3 9654 2022
info@agpe.com.au
www.agpe.com.au