Compensation and insurance payments

Check if you need to declare and pay tax on compensation and insurance payments, including settlements.

Personal injury compensation structured settlements

A structured settlement you receive as compensation for a personal injury is tax exempt if it meets certain conditions.

Compensation from financial institutions or under a scheme

When tax applies to a compensation payment from a financial institution or under the CSLR.

2019 Robodebt class action settlement payments

A settlement payment you receive from the 2019 Robodebt class action is not taxable.

Redress scheme payments

Redress scheme payments made as compensation or damages for a wrong, injury or illness are non-assessable income.

Payments of conflicted remuneration

Payments of conflicted remuneration you receive may need to be included as income in your tax return.

Income protection insurance payments

Declare payments from an income protection, sickness or accident insurance policy in your tax return.

QC 102698

Personal injury compensation structured settlements

A structured settlement you receive as compensation for a personal injury is tax exempt if it meets certain conditions.

Last updated 16 June 2025

Why you receive compensation for personal injury

If you have a severe personal injury because of the fault of someone else, you may be able to make a claim against that person or their insurer for compensation.

A personal injury case may arise from:

- medical negligence
- sporting accidents
- motor vehicle accidents
- public liability
- product liability.

You may be entitled to receive your compensation in the form of a lump sum or as periodic payments through a structured settlement or structured order.

Tax treatment of structured settlements

The periodic payments you receive from a structured settlement or structured order entered into on or after 26 September 2001 are tax-exempt (tax-free). The components of your structured settlement must satisfy certain conditions to be eligible for the tax exemption.

Prior to 26 September 2001, annuities you receive from a structured settlement were taxable income.

For more information, see **Taxation Laws Amendment (Structured Settlements and Structured Orders) Act 2002**.

Structured settlement

Structured settlements are the result of an agreement between the parties to a personal injury case. The parties to the settlement will generally be the injured person or their legal personal representative, the defendant and their insurer.

A structured settlement is a way of settling a claim for personal injury compensation. The injured person (claimant) receives at least part of their compensation in the form of tax-exempt periodic payments (annuities) instead of receiving a lump sum settlement.

A structured settlement can only be entered into by the injured person or their legal personal representative.

It is not possible to have or enter into a structured settlement:

- where the person has died
- after the parties have settled the case or a court has awarded damages.

There is no special requirement under the tax legislation for structured settlements to be approved by a court. There may be other reasons why court approval must be obtained (for example, one of the parties to the claim is under a legal disability).

Once an arrangement occurs for a structured settlement, you can't change it or cash it out for a lump sum. A structured settlement may have a number of components – for example, a compulsory and optional component.

Structured order

A structured order will have the same outcome (and components) as a structured settlement, with at least part of the compensation being paid in the form of periodic payments.

A structured order is the result of an order that has been made by a court, often without the consent of the parties.

Structured orders are only possible where a court has power to impose a judgment involving periodic payments of the type satisfying the tax rules for structured orders.

Structured orders are far less common than structured settlements.

Payment components of a structured settlement

A structured settlement will contain a compulsory component (personal injury annuities that provide you with a minimum level of monthly payments for as long as you live) and other optional components.

Compulsory payment

To be tax-exempt the personal injury annuity component is compulsory, it must satisfy the following conditions:

- the source of the money used to purchase the policy must come from the settlement
- the annuity must be purchased from an Australian life insurance company or a state insurer
- the wording of the policy instrument, in terms of identifying the structured settlement, should specify to whom the payments can be made and not allow for commutation (that is the conversion of the annuity into a lump sum payout) or assignment (that is the transfer to another person)
- the agreement must specify
  - the payments allowed

  - the frequency of payments
  - the term or length of the annuity, which must be at least for 10 years or for the life of the injured person
  - the date for the commencement of the annuity
  - the date of payment
  - the allowed basis for increases
- the agreement must specify the guarantee period (if any) including who will receive the annuity payments in the event of death of the injured person
- the personal injury annuity or annuities must satisfy the requirement for the minimum monthly level of support.

The personal injury annuity (or a combination of these annuities) must provide the injured person with a monthly amount that equals or exceeds the minimum monthly level of support. This effectively requires a lifetime annuity providing monthly payments that are equal to or more than one-twelfth of the current annual age pension. These must also increase in line with the All Groups Consumer Price Index (CPI) or full-time adult average weekly ordinary time earnings (AWOTE) or by a percentage specified in the annuity instrument.

Example: structured settlement involving a series of personal injury lump sums

Robert was involved in a motorbike accident with another vehicle and suffered a spinal cord injury resulting in quadriplegia. The other driver was at fault as they ran a red light.

Robert engaged a lawyer to make a claim for compensation for personal injury against the motorist. The motorist was insured and the insurance company defended the claim on their client's behalf.

The parties reached the following structured settlement agreement:

- The insurer will pay Robert an immediate cash lump sum of $565,000 (an optional component) that he can use this amount to pay his lawyers, pay off his debts and purchase some equipment.

- The insurer will also purchase a personal injury annuity (compulsory payment) that will provide Robert with periodic payments, starting at $2,000 per month and continuing for as long as he lives. The payments are indexed to increase in line with the CPI and are guaranteed for 10 years from the date of settlement. The monthly payments will be used to cover his medical expenses and other living costs.
- The insurer will also purchase a series of personal injury lump sums. These 8 payments are spaced out every 5 years and will be payable if Robert is alive on the agreed payment dates. The agreed timeframes and amounts are as follows
  - after 5 years – $10,000
  - after a further 5 years – $25,000
  - after a further 5 years – $40,000
  - after a further 5 years – $50,000
  - after a further 5 years – $75,000
  - after a further 5 years – $100,000
  - after a further 5 years – $150,000
  - after a further 5 years – $200,000.

It is expected that Robert will use these payments to replace his wheelchair every 5 years and to cover other expenses.

The personal injury annuity payments and the personal injury lump sum payments, including the immediate cash lump sum, will be tax-exempt.

Optional components

A structured settlement may also include one or more of the following optional components:

- a cash component – an immediate lump sum you receive after the settlement is arranged that you can use to pay your costs, pay any debts, purchase equipment, or invest

- other personal injury annuities – these have more flexible conditions than the compulsory minimum annuity
- personal injury lump sums – these can provide tax-free lump sums at pre-agreed future dates that are determined at the time of settlement.

For a personal injury lump sum to be tax-exempt, certain conditions must be satisfied. The instrument under which the lump sum is paid must:

- identify the structured settlement or structured order under which the lump sum is paid, that is the source of the money used to purchase the policy
- specify that the lump sum can only be paid to the injured person, or the trustee of a trust of which the injured person is the beneficiary
- specify the dates and amounts of the lump sums
- specify the method of indexation of the lump sum by either the CPI or AWOTE index
- contain a statement to the effect that the right to receive the lump sum can't be assigned, and can't be commuted or otherwise cashed out early.

Example: injured person uses a lump sum to purchase an annuity (not a structured settlement)

David settles a claim against Anne for a personal injury he has sustained. Under the terms of the settlement agreement, Anne is obliged to pay David a lump sum amount. David uses the lump sum to purchase an annuity from a life insurance company.

The annuity is not a personal injury annuity and therefore will not qualify for the tax exemption.

If the settlement agreement had specified that Anne or her insurer would use the lump sum to purchase a personal injury annuity from a life insurance company, the arrangement would be a structured settlement (assuming all the other requirements of the tax legislation were met, including the minimum level of support).

QC 72106

Compensation from financial institutions or under a scheme

When tax applies to a compensation payment from a financial institution or under the CSLR.

Last updated 16 June 2025

Why you receive compensation

You may personally receive compensation from a financial institution or under the Compensation Scheme of Last Resort (CSLR) because:

- the advice or service you received from the financial institution, financial adviser or broker was found to be inappropriate
- you pay them for advice or service that you didn't receive or was not properly performed.

The income tax treatment of the compensation depends on what the compensation is being paid for and how you hold (or held) the investments.

Your compensation payment can include some or all of:

- compensation for loss on an investment
- compensation for inappropriate service
- refund or reimbursement of adviser fees
- interest component

The compensation may relate to multiple investments or services, with different amounts of compensation granted against each one. You treat each compensation amount separately.

You may need to **contact us** for advice if:

- you held the investments on revenue account

- you held the investments on trust
- the compensation relates to a superannuation account or self-managed super fund.

Compensation for loss on an investment

You may receive compensation for a loss amount if the value of your investments is lower than it would have been if you had received appropriate advice.

The income tax treatment will depend on the status of your investment. Find out how to treat:

- compensation when you have disposed of the investment
- compensation in relation to existing investments

Compensation when you have disposed of the investment

When you dispose of the relevant investment, a **capital gains tax (CGT) event** happens. You report capital gains or losses you make from a CGT event in the income year you dispose of the asset.

Compensation payments you receive can be treated as additional capital proceeds relating to the disposal of those investments. If you had more than one investment, you will need to apportion the additional capital proceeds to each disposal.

If you are an **Australian resident for tax purposes** and the compensation relates to investments you held for at least 12 months, you may be able to claim the 50% CGT discount. This occurs where you disposed of your investments for a capital gain.

You may need to **request an amendment to your tax return** to reflect the additional capital proceeds if the compensation relates to CGT events that happened in a previous income year.

Compensation in relation to existing investments

If you receive compensation for investments you still own, you need to reduce either the **cost base or the reduced cost base**. You reduce one of these amounts by the compensation amount you received. This depends on whether you make a capital loss or gain when you dispose of the investments.

You will need to apportion the compensation amount where it relates to more than one investment.

Compensation for inappropriate service

Your compensation payment may include an amount for a loss suffered due to an inappropriate service. For example, a mortgage broker inappropriately arranged funds for you.

If the compensation relates to an inappropriate investment, see Compensation for loss on an investment.

If the compensation relates to adviser fees, see Refund or reimbursement of adviser fees.

If the compensation includes interest, see Interest component.

Refund or reimbursement of adviser fees

Your compensation payment may include an amount that is a refund or reimbursement of adviser fees. The income tax treatment of this amount depends on whether you claimed a deduction for the adviser fees in your tax return.

Deduction claimed for adviser fees

If you claimed a deduction for the adviser fees in a tax return, the amount you received as a refund or reimbursement will form part of your assessable income in the year you receive it.

Deduction not claimed for adviser fees

If you did not claim a deduction for the adviser fees, the refund or reimbursement does not form part of your assessable income.

However, where the adviser fees were included in the **cost base or reduced cost base** of any investments you made, you must reduce the cost base and reduced cost base by the amount of the refund or reimbursement.

You don't need to report any change of cost base and reduced cost base to us. The cost base and reduced cost base are used to calculate your capital gain or loss when you dispose of the investment. Report your capital gain or loss to us in the tax return for the year in which you dispose of the investment.

If you have disposed of these investments and have returned any resulting capital gain or loss in a previous income year, you may need to **amend your tax return** for that income year.

Interest component

The interest component is assessable as ordinary income. You must include the interest component in your return in the income year you receive it.

Example: investments held individually

Noel paid $2,000 to a financial institution for investment advice in May 2011. Following that advice Noel invested $100,000 in a high risk-high growth investment fund. The investment fund performed poorly and Noel disposed of the investment for $70,000 in January 2016.

Noel had claimed a deduction for the advice in his 2010–11 tax return.

An A1 CGT event happened when Noel disposed of all the investments in his portfolio. As a result of that, Noel made a capital loss of $30,000 that he included in his 2015–16 tax return.

The financial institution reviewed the advice given to Noel and determined that the advice was inappropriate for his circumstances as he should have been advised to invest in a more conservative portfolio.

In 2025, the financial institution offered Noel compensation of $40,000 in respect of the advice. The payment included compensation of $30,000, a refund of the adviser fees of $2,000 and an interest component of $8,000. Noel accepted the offer of compensation in June 2025.

Noel treats the $30,000 compensation for loss amount as additional capital proceeds received for the investments. Noel recalculates his capital loss for 2015–16, reducing it to nil. Noel will need to amend his 2015–16 return with the new calculation.

As Noel had claimed a tax deduction for the adviser fees in his 2010–11 tax return, the $2,000 refund of those fees is included in his assessable income in his 2024–25 tax return. He will also include the $8,000 interest component in his 2024–25 tax return.

QC 72107

2019 Robodebt class action settlement payments

A settlement payment you receive from the 2019 Robodebt class action is not taxable.

Last updated 5 January 2026

What is the 2019 Robodebt class action?

The 2019 Robodebt class action (also known as the Income Compliance class action) relates to Centrelink debts raised by income compliance reviews since July 2015.

On 11 June 2021, the Federal Court approved the settlement of the class action and payments were made in 2022. Eligible participants in the class action should have a letter from Services Australia and received a settlement payment.

Settlement payment and your tax return

If you received a settlement payment because you were an eligible participant of the 2019 Robodebt class action, you:

- don’t need to declare the settlement payment as income in your tax return
- don't pay tax on the settlement payment.

To learn more about the Robodebt class action, visit Services Australia.

This information is also available in other languages. To find out if it is in your language, see Robodebt class action and settlement payments translations.

QC 72108

Redress scheme payments

Redress scheme payments made as compensation or damages for a wrong, injury or illness are non-assessable income.

Last updated 16 June 2025

What is a redress scheme?

Redress schemes are about making an acknowledgement for wrongs in the past. They have general features that include payments for harm, harassment or discrimination of a person.

Redress scheme payments may be compensation for:

- damages for a wrong, injury or illness an individual suffers personally – are non- assessable payments
- financial loss or on termination – may be assessable.

Redress scheme payments and your tax return

You don't need to declare any compensation payments you receive from a redress scheme for personal injury you suffer. These payments are non-assessable income. This means you don't need to include these amounts in your tax return.

These payments are also not subject to capital gains tax.

Examples of redress schemes

Several state and national redress schemes have come into operation in the last few years, such as the:

- Australian Government's National Redress Scheme – payments started on 1 July 2018 and will run for 10 years.
- Victorian Government's Restorative Engagement and Redress Scheme – payments started on 1 July 2020.
- Territories Stolen Generations Redress Scheme – announced on 5 August 2021 and will run for 5 years. It opened for applications on 1 March 2022.

QC 72109

Payments of conflicted remuneration

Payments of conflicted remuneration you receive may need to be included as income in your tax return.

Last updated 16 June 2025

What is conflicted remuneration?

Conflicted remuneration means benefits given to a financial adviser that might influence the advice they give or the products they recommend to a client. You may also know these amounts as a 'rebate'.

Conflicted remuneration changes

A key recommendation of the Banking, Super and Financial Services Royal Commission was to end the payment of grandfathered conflicted remuneration to financial advisers. Law changes made in response to the recommendation mean that conflicted remuneration paid to financial advisers have been banned from 1 January 2021.

As a result of these changes, as the investor, you may receive:

- payment of an amount based on what the financial adviser would have been paid
- an equivalent benefit in another form.

If you directly receive a payment based on the amount the financial adviser would have been paid, that amount is separate from anything you are entitled to receive from your investment. For example, the payment will not be a superannuation or annuity payment.

Conflicted remuneration and your tax return

Depending on how you receive the conflicted remuneration, you may need to include any amounts as income in your tax return. If you receive the conflicted remuneration as:

- one or more separate payments, then it will be assessable as ordinary income
  - if completing paper return, show the amount at **Other income**, Category 4 label V in the supplementary tax return
  - if completing your return in myTax, show the amount at Other income, select **Financial investments not shown elsewhere** under **Type of payment**
- a benefit in a form other than a payment, then you should seek advice from your tax adviser or us regarding the tax treatment.

For more information, see ASIC – RG 246 Conflicted remuneration and other banned remuneration.

Income protection insurance payments

Declare payments from an income protection, sickness or accident insurance policy in your tax return.

Last updated 16 June 2025

About income protection policies

An income protection insurance policy covers for the loss of salary or wages due to illness or accidents. The amount of the payments you receive is a percentage of your earnings based on your employment income prior to a claim.

Policies may be personal accident insurance, sickness insurance or a combination of both, usually named income protection insurance.

You must declare all payments you receive for lost salary or wages under one of these policies (this includes any payment you receive as part of a workers compensation scheme). Where you declare payments made to you under an income protection, sickness or accident insurance policy in your tax return will depend on if tax has been withheld.

You may receive a **compensation payment**, if you've made a personal injury claim and either:

- you agree to a settlement
- a court order is made in your favour.

You may receive these payments in the form of a lump sum payment, structural (periodic) payments or both. If you meet certain conditions, the payments may be tax-free, see **Personal injury compensation structured settlements**.

The premiums you pay to protect against the loss of your employment income are deductible, see **Income protection insurance**.

PAYG withholding tax on income protection payments

As the policyholder, you must check whether tax has been withheld from payments you receive under an income protection, sickness or accident insurance policy.

Tax is not withheld from payments the insurer pays directly to the owner of a relevant policy.

If tax is withheld

If tax is withheld, declare these payments at **Salary, wages, allowances, tips, bonuses etc** in myTax. If completing a paper tax return and tax has been withheld, declare these payments at question 1 Salary or wages.

These amounts will show on your income statement or *PAYG payment summary – individual non-business*.

If tax not withheld

If tax has not been withheld, and the payment is shown on your income statement or *PAYG payment summary – individual non-business,* declare these payments at **Salary, wages, allowances, tips, bonuses etc** in myTax.

If completing a paper tax return, declare these payments at question 2 **Allowances, earnings, tips, director fees etc**.

If tax has not been withheld, you declare these payments at **other income** in your tax return if:

- the premiums were deductible
- the payments replace your employment income
- they are **not** shown on your income statement or *PAYG payment summary – individual non-business*.

QC 72112

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.