

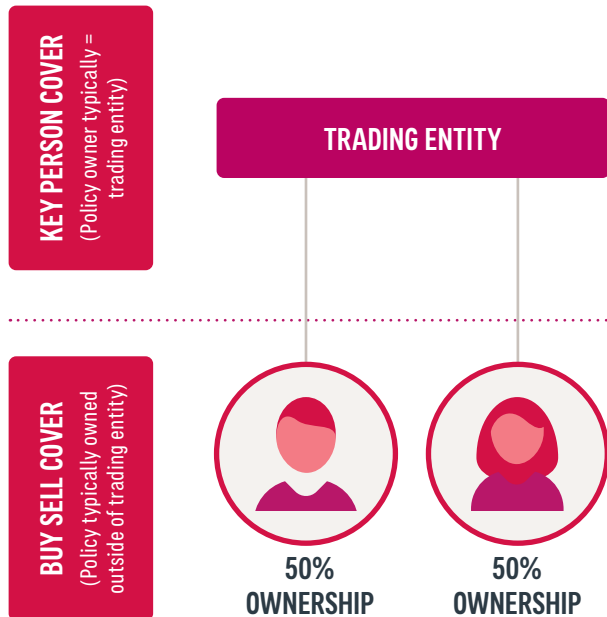
# BUY/SELL VERSUS KEY PERSON

## Insurance ownership guide



July 2023 | By the AIA Technical and Education Centre of Excellence (TECE) team

This guide provides a brief overview of the key differences between buy/sell and key person cover, including how both types of cover are generally owned, tax implications on payout and other issues to consider. Clients should refer to their tax adviser for more information on their specific circumstances.



### Protects the business in the event of an unplanned exit

Purpose <sup>1</sup>	Examples	Type of insurance <sup>2</sup>	Tax treatment
Revenue	Loss of revenue and operating expenses such as rent, advertising, utilities, replacement locum	Life, TPD, Crisis Recovery or Business Expenses	Premiums are generally tax deductible Insurance proceeds assessable income
Capital	Repay business debt, offset loss of goodwill	Life, TPD or Crisis Recovery	Premiums non-deductible CGT may apply for TPD or Crisis Recovery claim proceeds received by the operating entity <sup>3</sup>

### Protects the owners in the event of an unplanned exit

Policy owner	Tax treatment upon claims	Comments <sup>4</sup>
Self-owned by business owners <sup>5</sup>	Tax-free <sup>6</sup> . Insurance proceeds not assessable income and CGT not payable on Life, TPD or Crisis Recovery proceeds	<ul style="list-style-type: none"> <li>• Tax effective and adapts to changes to business structure.</li> <li>• To alleviate any anticipated cash flow pressures on the owners the trading company or trust may pay the premiums on behalf of the owners, so long as this is accounted for appropriately.</li> <li>• It is crucial that a legally enforceable buy/sell agreement underpins the arrangement.</li> </ul>

1 It is advisable to record the purpose for which the cover was obtained in the formal documents of the business (e.g. company minutes).

2 Subject to product imposed limitations

3 For company taxpayers, the capital gains tax liability would generally be determined as: [Insurance proceeds – sum of insurance premiums paid on policy] \*30%

4 For more information refer to *Guide to buy/sell funding and insurance ownership structures*.

5 Other insurance ownership structures exist, such as cross-owned, trust, company, etc. Refer to *Guide to buy/sell funding and insurance ownership structures*.

6 No CGT is payable on life insurance proceeds if the taxpayer/recipient is the original owner of the policy, or the taxpayer/entity acquired the interest in the policy for no consideration.