BUY/SELL VERSUS KEY PERSON

Insurance ownership guide

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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.

BUY SELL COVER Policy typically owned trading entity) trading entity) Application of trading entity) The statement of trading entity owner typically entity of the property of

OWNERSHIP

Protects the business in the event of an unplanned exit

| Examples | Type of insurance ² | Tax treatment |
|--|--|---|
| 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 |
| . , | Recovery | Premiums non-deductible |
| | | CGT may apply for TPD or Crisis Recovery claim proceeds received by the operating entity ³ |
| _ | Loss of revenue and operating expenses such as rent, advertising, utilities, replacement locum | Loss of revenue and operating expenses such as rent, advertising, utilities, replacement locum Expenses Repay business debt, offset loss of goodwill Life, TPD or Crisis |

Protects the owners in the event of an unplanned exit

| Policy owner | Tax treatment upon claims | Comments ⁴ |
|--|--|---|
| Self-owned by business owners ⁵ | Tax-free ⁶ . Insurance proceeds not assessable income and CGT not payable on Life, TPD or Crisis Recovery proceeds | Tax effective and adapts to changes to business structure. 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. |
| | | • It is crucial that a legally enforceable buy/sell agreement underpins the arrangement. |

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).

OWNERSHIP

- 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.

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AIA Australia has prepared a Target Market Determination which describes the class of consumers that comprise the target market for Priority Protection.

The Target Market Determination can be sourced at aia.com.au/tmds