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 outside of trading entity) Linding entity) Lading entity) Manual Manual

Protects the business in the event of an unplanned exit

Purpose ¹	Examples	Type of insurance ²	Tax treatment
Revenue	3	Life, TPD, Crisis	Premiums are generally tax deductible
		Recovery or Business Expenses	Insurance proceeds assessable income
Capital	Repay business debt, offset loss of goodwill	Recovery	Premiums non-deductible
			CGT may apply for TPD or Crisis Recovery claim proceeds received by the operating entity ³

Protects the owners in the event of an unplanned exit

Tax treatment upon claims

Self-owned by business owners ⁵	 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.

Comments⁴

- 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.

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