Zinc Business Protection

Limited Companies/Partnerships/LLPs

Important Note

The information to follow is intended as guidance only and is not intended to provide taxation advice. In all cases the insured and the business should seek specialist taxation advice based upon their own specific circumstances. It should also be noted that taxation rules change and this guidance has been prepared based upon our understanding of current tax legislation at the release date. Zinc Insurance Services can accept no responsibility for actions taken as a result of this release.

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General Tax Guidance

The tax treatment of a policy will depend on the particular mix of benefits provided.

From the perspective of obtaining tax relief for insurance premiums, it is necessary to review the benefits which can be expected to be obtained. In general, tax relief is only available to a business if the expense is wholly and exclusively incurred for the purposes of that business. For example any part of a premium which is intended to provide a future benefit to the shareholders of a company, (as under the specific Shareholder Protection cover) will not be allowable for tax purposes and is likely to "taint" the deductibility of the whole premium. HMRC may however allow a proportion of the premium as a tax deduction so far as it only relates to protecting the business. Alternatively the whole of a premium may be allowable if, for example, **the benefit to the shareholders is purely ancillary** and perhaps arises only because a protected business should not suffer any impairment in share value as a result of the circumstances crystallising a claim.

The treatment for tax purposes of the proceeds arising from a claim will depend upon the terms under which the insurance payments are due. **In general, if tax relief is obtained for the policy premium then the insurance proceeds will be taxable.** Further guidance for each section under the policy is given below.

If the insurance proceeds are intended to reimburse a business for a benefit which is to be provided to a Director or Partner of the business (for example rehabilitation costs) then there is likely to be tax implications for both the business and the employee **although these may be minimal.** Again further guidance is given below.

As a general point where the cover reimburses a tax deductible cost of the business the overall position should be tax neutral. There could however be a timing difference between the tax due on the insurance receipt and the tax relief due on the costs, particularly if those costs are not incurred in the same accounting period as the insurance proceeds are received (noting that reimbursement is usually paid a month in arrears).

Summary of benefits under the policy

Limited Companies, Partnerships, LLPs

A Business Protection policy that:

Pays a **lump sum to the business entity** should the insured person be permanently disabled or following accidental death

Pays a **monthly benefit to the business** on a reimbursement basis to cover:

- interest on overdraft facilities
- commercial loan payments
- mortgage or lease payments
- recruitment agency fees
- replacement salary costs
- rehabilitation costs

should the insured person be only partially or temporarily disabled from usual occupation

Limited Companies/Partnerships/LLPs

The insurance premium should be allowable for tax purposes as the policy is intended to protect the business in the absence of one of its key persons. If the key person is also a shareholder in the business then the premium may not however be an allowable deduction for the company because it could be deemed the benefit is as much for the shareholder as for the business (see above). It should be noted that whilst tax relief may not be available for the premiums, HMRC are not able to give assurance that the future receipts will be excluded from tax. Each case is decided based upon its own facts **but in general terms an insurance policy premium protecting the assets of the business is usually tax deductible.**

Guidance on the treatment of the proceeds of a claim is summarised below on the assumption that the premiums will be tax deductible.

1. Director Protection

*Provides protection to the **business entity** by providing a lump sum payment following the permanent disability of the insured person from usual occupation*

The lump sum is likely to be viewed by HMRC as compensation for a decrease in business profits arising as a result of the absence of one its key persons. **The lump sum is therefore likely to be a taxable trading receipt of the company.**

If the lump sum is used to cover the costs of recruiting and remunerating a replacement worker then the business should be broadly tax neutral; that is whilst the lump sum is taxable, the costs incurred in replacing the worker should be an allowable tax deduction.

In essence the business entity could use the proceeds of the claim for numerous purposes. If the business decides to use the lump sum to assist in the purchase of any company shares held by the insured person then there may be benefits to writing this element of the policy in trust to prevent a charge to tax on the receipts of a claim, although it is recognised a more specific coverage under the Shareholder Protection element of cover caters for this more specifically. This is however likely to cause part of the premium (if identifiable) to be disallowed as a deduction for tax purposes. Specialist tax advice should be sort in this regard.

The insured person should take taxation advice prior to disposing of their shares in order to secure the most beneficial treatment for them as the proceeds arising from a company purchase of its own shares could be subject to either capital gains tax or income tax depending on the specific circumstances (see below under Shareholder Protection).

2. Partner Protection

*The policy will **pay the business** a lump sum. It provides protection for the partners by providing a lump sum to the Partnership following a permanent disability to an insured person from usual occupation.*

The lump sum is likely to be viewed by HMRC as compensation for the decrease in business profits arising as a result of the absence of one its key persons. **The lump sum is therefore likely to be a taxable trading receipt of the partnership.**

If the lump sum is used to cover the costs of recruiting and remunerating a replacement worker then the business should be broadly tax neutral; whilst the lump sum is taxable, the costs incurred in replacing the worker should be an allowable deduction.

In essence the business entity could use the proceeds of the claim for numerous purposes and therefore the specific tax treatment will need to be assessed at this time. Please contact your advisors.

3. Overdraft Protection

*The cover will **reimburse the interest accrued** monthly on the business overdraft facility. This is only available for companies and partnerships and protects overdraft facilities which were in place at least 6 months prior to the policy being taken out. This will ensure reimbursement of the interest payable on the overdraft subject to the maximum section benefit, following a disability to the injured person who is totally or partially disabled and unable to carry out their usual occupation.*

For companies the receipt of this reimbursement should not be taxable and hence in this case there will be no tax deduction available for the interest costs incurred by the company. **The position should therefore be tax neutral.**

For partnerships the interest expense should be deductible against partnership profits but the insurance receipts would then be taxable in calculating the profits of the trade (but only up to the amount of the deduction). **The effect should therefore in general be tax neutral as in the case for companies.**

4. **Commercial Loan Protection**

The cover will ***reimburse the business*** *a monthly benefit to meet a regular payment. This is only available for companies or partnerships and allows the business to* ***protect a business loan*** *so long as it was in existence at least 6 months prior to the policy. The policy will pay out a monthly benefit amount which shall not exceed the maximum section benefit, following a disability to the injured person who is totally or partially disabled and unable to carry out their usual occupation.*

The monthly payments are likely to be viewed by HMRC as compensation for the decrease in business profits arising as a result of the absence of one its key persons. These payments are therefore likely to be a taxable trading receipt of the business be it a company or partnership.

If the business is usually able to obtain a tax deduction for the interest element of the loan payments then this will offset part of the taxable insurance proceeds. Any part of the proceeds which cover the capital repayments on the loan are however likely to remain taxable.

5. **Mortgage/lease Protection**

The cover will ***reimburse the business*** *a monthly benefit to meet a regular payment. This is only available for companies or partnerships and allows the business to* ***protect a business mortgage or lease*** *so long as it was in existence at least 6 months prior to the policy. The policy will pay a monthly benefit amount which shall not exceed the maximum section benefit, following a disability to the injured person who is totally or partially disabled and unable to carry out their usual occupation.*

Lease Protection

For companies the receipt of this reimbursement should not be taxable and hence in this case there will be no tax deduction available for the lease costs incurred by the company. **The position should therefore be tax neutral.**

For partnerships the lease expense should be deductible against partnership profits but the insurance receipts would then be taxable in calculating the profits of the trade (but only up to the amount of the deduction). **The effect should therefore in general be tax neutral as in the case for companies.**

Mortgage Protection

The monthly payments are likely to be viewed by HMRC as compensation for the decrease in business profits arising as a result of the absence of one its key persons. These payments are therefore likely to be a taxable trading receipt of the business be it a company or partnership.

If the business is usually able to obtain a tax deduction for the interest element of the mortgage payments then this will offset part of the taxable insurance proceeds. Any part of the proceeds which cover the capital repayments on the mortgage are however likely to remain taxable.

6. Recruitment Agency Fees

*The cover **will reimburse the fees incurred** by the business to hire a replacement executive. This is only available for companies or partnerships*

For companies the receipt of this reimbursement should not be taxable and hence in this case there will be no tax deduction available for the recruitment costs incurred by the company. **The position should therefore be tax neutral.**

For partnerships the recruitment expense should be deductible against partnership profits but the insurance receipts would then be taxable in calculating the profits of the trade (but only up to the amount of the deduction). **The effect should therefore in general be tax neutral as in the case for companies.**

7. Executive Salary Replacement

*The cover will **reimburse the business** of the salary paid to the replacement executive on a monthly basis. This is only available for companies or partnerships*

To qualify for tax relief against the profits of a company or partnership the expense must be made wholly and exclusively for the purpose of the trade.

- As the policy covers the cost to the business of a replacement executive the premium **should qualify for tax relief as a business expense.**

For companies the cost of the replacement executive should not be deductible for tax as it is being met by the insurance receipts. **The insurance receipts would not therefore be taxable**

Partnerships should be able to obtain a deduction for the costs of the replacement executive but would then need to bring the insurance receipts in as taxable income.

8. Rehabilitation Costs

*The cover will **reimburse the business** for the costs incurred in providing rehabilitation to the disabled person. This is available to companies and partnerships.*

For companies the receipt of this reimbursement should not be taxable and hence in this case there will be no tax deduction available for the rehabilitation costs incurred by the company. **The position should therefore be tax neutral.**

For partnerships the rehabilitation expense should be deductible against profits but the insurance receipts would then be taxable in calculating the profits of the trade (but only up to the amount of the deduction). **The effect should therefore in general be tax neutral as in the case for companies.**

Where the insured person is an employee a P11D benefit issue could arise for that person when the rehabilitation is provided. **As the element of the annual premium relating to this cover is minimal** a taxation adviser may be able to advise of ways to prevent this issue from arising by agreeing a position with HMRC in advance.

9. Accidental Death

The cover will ***pay the business*** *a lump sum. This is available to companies and, partnerships.*

The lump sum is likely to be viewed by HMRC as compensation for a decrease in business profits arising as a result of the absence of one its key persons. The lump sum is therefore likely to be a taxable trading receipt of the company or partnership. Mitigation of the tax charge may be possible if the business utilises the lump sum by incurring qualifying expenses to replace the insured person.

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