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Keyperson Cover – an advisors quick guide

LIFE ADVISORY SERVICES

This document is intended as a brief guide for advisors to keyperson cover. For more detailed information please see our keyperson cover advisors guide.

THE PURPOSE OF KEYPERSON COVER

Keyperson insurance is life assurance effected by an employer on the life of a key employee, who may also be a shareholder or director, to protect the company against the financial consequences of that individual's sudden death or serious illness.

The sudden death or serious illness of a key person could give rise to a number of immediate financial pressures for the company:

- the 'calling in' of company loans, in particular any to which the 'key person' had given a personal guarantee
- a costly interruption in business
- a loss of business contacts
- extra resources may have to be committed to the recruitment and replacement of the key individual.

WHO IS A KEYPERSON?

A keyperson is any 'key' employee or director on whom the business depends for its continued success, or existence, and on whose death or serious illness the business could suffer a financial loss.

AMOUNT OF COVER

In determining the appropriate amount of keyperson insurance cover an insurable value must be put on the potential financial loss that the company would suffer on the death or serious illness of a key individual.

In assessing the amount of cover two important factors to consider are:

- Loan repayment, any loans personally guaranteed by a "keyperson" or any loans made by him or her to the company.
- Loss of profits cover. The death or serious illness of a key individual could jeopardise the trading position and profitability of the company.

The cover required is the estimated financial loss that the business would suffer plus the costs of replacing the key individual.

TAX TREATMENT

The tax treatment of keyperson plans depends on the reason for the cover, the table below illustrates this however for more detailed information please see our keyperson cover advisors guide.

Reason for Cover	Benefits	Premium
Loss of Profit / Replacement Costs	Yes - Taxable	Tax deductible - if the four conditions below are met; • the sole relationship is that of Employer and Employee, • the employee has no substantial proprietary interest in the business, • the insurance is intended to meet **loss of profit** resulting from the loss of the services of the employee as distinct from loss of goodwill or other capital loss, and • the policy is a short term insurance, providing only for a sum to be paid in the event of death.
Loan Repayment / Share Purchase	No – Not Taxable	Not Tax deductible

We advise that your client seeks professional tax and legal advice as the information given is a guideline only and does not take into account your client's particular circumstances.

Information is correct as at April 2015 but is subject to change.

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