# Life Assurance Policies Effected by Employers on the Lives of their Employees

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# Introduction

This manual outlines the tax implications for employers who take out certain life assurance policies on the lives of their employees.

# 1. General

Where an employer takes out in his own favour a policy insuring against death, sickness or injury of an employee, the premiums paid are normally **inadmissible** deductions for tax purposes. Where, however, the purpose of the insurance is to provide against an obligation to pay compensation on death etc. or where the employer insures against his general liability to pay compensation for occupational injuries, the premiums may be **admissible** deductions and all sums received by the employer in respect of the insurance treated as **trading receipts**. In general, premiums under policies insuring against loss of profits consequent upon certain contingencies will be treated as admissible deductions and the sums received by the employer treated as trading receipts. Policies covering sickness, accident or death of an employee which may qualify under this heading are those where –

(a) the sole relationship is that of employer and employee,

(b) the employee has no substantial proprietary interest in the business,

(c) 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

(d) in the case of insurance against death, the policy is a short term insurance providing only for a sum to be paid in the event of the death of the insured within a specified number of years.

These latter policies are generally known as “Keyman” Insurance and are designed to protect an employer against the loss of profits which would result from the death or illness of an employee (the “Keyman”) whose services are vital to the success of the employer’s business.

# 2. Keyman Insurance Policies

In practice the term “Keyman” may be applied to a range of policies not all of which may give rise to admissible deductions and the allowability or otherwise of premiums paid should be determined by reference to the terms and purposes of the policy rather than any description which the Insurance Company may give it. In applying the conditions at 1(a), (b), (c) and (d) above the following guidelines should be followed:-

i. "Employee" may be taken as including a director.

ii. A person who directly or indirectly, owns or is able to control more than 15% of the ordinary share capital of a company should be regarded as having a substantial proprietary interest in the company.

iii. The policy should be for a fixed term with no surrender value and no endowment or other investment content; it should not contain provisions whereby benefits could be paid to any person other than the employer.

iv. The insurance must be related to loss of profits only and the Revenue Officer should be satisfied that the contingency insured against will genuinely have an adverse effect on the employer's business. Premiums on policies taken out to cover loans or other outstanding debts which would become repayable on the death of an employee are not admissible deductions.

v. In general, "short term" means not exceeding five years. However, in practice, a fixed term policy exceeding five years may be accepted provided that all the other conditions are met and the policy cannot extend beyond the employee's likely period of service with the employer e.g. for the period of the contract of service or to normal retirement age.

# 3. Treatment of premiums paid and benefits receivable under a Keyman policy

If the appropriate conditions are met, the premiums payable under a Keyman policy may be allowed as a business expense for the accounting period in which they are payable. Conversely, following the well-established principle that a surrogatum for loss of profits is an income receipt, any benefit paid under the policy should be treated as a trading receipt for the accounting period in which it is paid.

While the allowability of a premium or the chargeability of a benefit are strictly separate issues, it may be accepted that, if the premiums are allowable, the benefit is chargeable and, if the premiums are not allowable, the benefit is not chargeable. However, it should not be accepted that a benefit is not chargeable simply because the employer decided not to claim a deduction for the premiums.