Keeping it **all going**

A Guide to Keyperson Insurance

Keyperson Insurance

ROYAL LONDON IRELAND

What's inside

Welcome to Royal London Ireland

We've a strong business heritage in Ireland and have been protecting customers here for 200 years, most recently known as Caledonian Life. Today we are owned by The Royal London Mutual Insurance Society Limited – the largest mutual life, pensions and investment company in the UK.

Our parent company's mutuality, meaning it is customer and member owned with no shareholders, allows us to adopt a mutual mindset. This means we take a longer-term view and focus on providing best customer outcomes. Whoever you are and whatever your aims, we'll look to provide you with great long-term value, first class service and support at all times.

How would your business cope?

Despite their utmost importance, many business owners can fail to protect their organisations from the difficulties that might arise following the premature death of a 'Keyperson' within their organisation.

Who exactly is a Keyperson?

A Keyperson is anyone who the company depends on for its continued success. It relies on the Keyperson's specialised skills, reputation and contacts and their death would have serious consequences for the profitability of a company.

For example, your Sales Director will have strong ties and relationships with your key clients and your Finance Director undoubtedly has a well founded link to your suppliers and Bank.

How would your company cope with the loss of your most valuable business assets: the men and women whose talent, expertise and judgement contribute substantially to the financial health of your organisation?

The table below illustrates that the probability of at least one keyperson in a company dying could be much higher than you may think. This may seem very stark and, needless to say, not something any of us like to spend any time dwelling on. However, the unfortunate truth is that it happens all the time.

No. of Keypersons in firm	Chance of one Keyperson dying before age 65
2	18%
3	25%
4	32%
5	39%
6	44%
7	50%
8	54%

Source: CSO Table 17 on Irish Life 2015/17; all persons assumed to be aged exactly 40 and males.

Immediate impacts on your company following the premature death of a Keyperson

- Loss of profits.
- The repayment of Bank or company loans for which the deceased may have given a personal guarantee.
- The requirement to immediately repay to the deceased's estate any loans or capital sums provided by the Keyperson to the company.
- The loss of the Keyperson's business contacts, jeopardising future sales.
- The postponement or delay of a specialised project which may be critical to the company's future and which was managed by the deceased.

Did you know?

The chance of one Keyperson, in a firm with two Keypersons, dying before the age of 65 is 18%.

The solution:

Of course, no one wants to think about the death of their colleagues. That's quite normal. But failing to protect your business from this possibility could have severe consequences for the financial health of your company.

There is, however, a solution available. **Keyperson Insurance from Royal London Ireland** offers you a cost effective option to put the measures in place now to safeguard your business in the event of the death of a key employee, and maintain its continued financial stability in the future.

So, what exactly is it?

Keyperson Insurance from Royal London Ireland is Life Cover arranged by the company on the life of one or more key employees, who may or may not be shareholders. Their key skills are regarded as vital to the success of the company and their loss would have adverse financial effects for the organisation.

Quite simply, with **Keyperson Insurance**, the employer of the Keyperson(s) pays the policy premiums and, in turn, the company receives a lump sum payment on the death of the individual insured under the policy. These proceeds can then be used in many ways.

How your company can use the proceeds

- Pay off outstanding bank loans or any loans made by the individual to the company.
- Recruit and train a suitable replacement.
- Invest back into the business for improvement purposes.
- Protect the company against loss of profit.

While Keyperson Insurance of course cannot lessen the emotional blow and trauma caused by the death of a colleague, it can help to minimise the financial impact.

In today's uncertain world, that's very valuable peace of mind.

Business case example

ABC Ltd, a thriving IT firm, wishes to insure their Finance Manager, Paul Smith, for €500,000 Life Cover to protect the company financially against any loss of profits in the event of his death.

How do you go about putting this cover in place and what's involved?

Before we look at the example, let's consider some of the taxation issues that may arise. These are just simple examples and explanations, you'll find full in-depth details on taxation treatments on pages 14, 15 and 16.

As the company is paying the premiums for the Keyperson policy, it can obtain Corporation Tax relief on the premiums paid, provided the following four conditions are (and must be) met:

a. The sole relationship between the individual effecting the Life Cover and the Life Assured is that of employer and employee.

b. The employee must have no substantial proprietary interest in the business (i.e. less than or equal to 15%).

c. The insurance effected is intended to meet the loss of profit resulting from the loss of service of an employee, as distinct from a capital loss.

d. The policy is a Term Assurance contract with a term not exceeding normal retirement age.

When these four criteria are met, you can **obtain Corporation Tax relief on the policy premiums paid.**

When Corporation Tax relief is available on premiums paid (i.e. the four criteria are met) it also means that there will be a tax liability on any policy proceeds. When a claim is made, the policy proceeds are treated as a 'revenue receipt' and are therefore **liable to Corporation Tax.**

Business case example continued

However, if you don't meet the four criteria and the premiums paid do not qualify as a business expense, there may be no tax liability on the policy proceeds. In this case, when a claim is made, the policy proceeds are treated as a 'capital receipt' and may not be **liable to Corporation Tax.**

Finally, it's also important to note that if the premiums have not been deducted as an expense for Corporation Tax purposes when they meet the four criteria, the Revenue still reserves the right to tax the proceeds as a trading receipt, if they feel the purpose of the policy was to replace profits.

As it's important you know exactly what taxation treatment will apply to your organisation prior to structuring a Keyperson Insurance arrangement, companies must consult their relevant independent Legal Adviser, Taxation Consultant and/or Financial Broker.

For example: ABC Ltd wishes to insure their Finance Manager, Paul Smith, for €500,000 Life Cover.

Paul holds 3% of company shares and therefore does not have a significant proprietary interest in the company (i.e. he owns less than 15% of the company).

All the other required criteria are also met, so the **premiums will therefore qualify for Corporation Tax Relief.** In the event of a claim being made, the **proceeds will be taxed as a trading receipt**, regardless of whether Corporation Tax Relief on the premiums is claimed.

To ensure that at the time of a claim the policy proceeds required of €500,000 take the Corporation Tax liability into account, the Life Cover put in place needs to be 'grossed up'. This means that ABC Ltd need to add the amount of the 12.5% Corporation Tax (current rate) to the amount of cover they want for Paul. So, €571,000 is the resulting Life Cover amount, with its premiums qualifying in full as a business expense.

After discussing their requirements with a Financial Broker, ABC Ltd selected Life Cover for five years of €571,000 — the anticipated loss of profits in the event of Paul's untimely death.

You'll find full details on what to do next and how to set up a Keyperson policy on pages 8–9.

Having decided to take out the policy, on whom and for what amount, ABC Ltd then passes the appropriate 'Board Resolution', recording their decision to affect Life Cover on Paul.

They then inform Paul of their decision and complete the appropriate application. Once the application has been accepted by Royal London Ireland and the first premium has been paid, the policy will then be issued.

In summary

1. Decide who should be insured — Paul Smith, Finance Manager
2. Assess the level of cover required — €500,000 + €71,000 = €571,000 (anticipated loss of company profit in the event of Paul's death) for five years, grossed up
3. Pass the appropriate Board Resolution
4. Advise the relevant Keyperson of the Board's decision — Paul Smith
5. Complete the application and set up the required Life Cover

Prior to structuring a Keyperson Life Insurance arrangement, companies must consult their relevant independent Legal Adviser, Taxation Consultant and/or Financial Broker.

Did you know?

Premiums paid on Keyperson Insurance may qualify for Corporation Tax relief.

Setting it all up

Arranging Keyperson Insurance with Royal London Ireland is a straightforward process involving the following five steps:

Step 1 – Decide who should be insured

The decision on who is to be insured is normally taken by the Board of the company, who must assess the business and any financial risks that could arise from the death of a Keyperson within the organisation.

The company should insure any Director or employee whose skills and/or experience are considered essential for the continued success of the business, and whose death could result in serious business disruption and financial loss.

Step 2 – Decide how much cover is needed

After deciding who should be insured, the Directors must then determine the amount of Life Cover required on a particular individual. To determine the amount of Life Cover needed, the company needs to estimate the financial loss that the company might suffer on the death of that particular person.

Determining the level of cover required can be done in a number of ways:

Estimation of loss of profits

This approach takes into consideration the Keyperson's contribution to net profits. As this can be a complex assessment, the level of cover is sometimes determined by using a multiple of either the individual's salary or the company's profitability. The effectiveness of this method depends on the position held by the Keyperson. In the case of a Sales Manager for example, it may be useful to assess their sales records to determine the level of cover required.

Multiple of salary

This approach involves the company taking a multiple of an individual's remuneration. For example, a company may decide on an amount between five and 10 times the individual's annual salary.

Assessment of value of loans personally guaranteed

This involves assessing the value of loans personally guaranteed by the individual and/or any loans made by that individual to the company that are not already covered by Life Cover. The level of cover might therefore be set to equal the amount of any borrowings to be repaid on the death of the employee. If a company takes out a commercial loan, the lending institution may require a Keyperson policy to be taken out to cover this liability.

Replacement costs

Here the Directors must assess the financial and non-financial costs involved with replacing a key member of staff. The factors involved in calculating the replacement cost of an employee include:

- The loss of profitability
- Recruitment
- Training a replacement
- Business disruption

The level of cover required is therefore the estimated financial loss that the business might incur in the event of the death of each Keyperson, plus the costs of recruiting and training their replacement.

When deciding the level of cover required, it is advisable that the company seek advice from a Financial Broker or another appropriately qualified professional.

Setting it all up continued

Step 3 – Pass the appropriate Board Resolution

Once a decision has been reached as to who is to be insured and for what level of cover, it is normally recommended that the company pass a Board Resolution recording the Directors' agreement to effect Keyperson Insurance in respect of one or more employees or Directors. For a sample of a Board Resolution, please refer to Appendix 2 of this brochure.

Step 4 – Advise the relevant personnel of the Board's decision

The company Directors should then inform the person(s) to be insured of their decision to take out a policy and also the reasons behind their decision.

Step 5 – Complete the application and set up the required Life Cover

A separate application should be completed for each Keyperson to be insured. Under the policy, the company will be the 'grantee' and the chosen employee(s) or Director(s) will be the 'Life Assured'. The person to be insured will be required to complete part of the application to be submitted for the policy.

In most cases, the application will contain all the information we need.

However, in some cases, the individual to be insured may also be required to attend a medical examination.

Also, in certain circumstances, the company may be asked to complete a financial questionnaire in order to assist us in our examination of the amount of cover proposed.

Policy issued

Assuming the application is accepted and a policy is issued, should the Keyperson die while it is in force, the sum assured will be paid directly to the company on proof of death, subject to any exclusions or restrictions in the policy.

These funds can then be utilised by the company to protect its financial position in whatever manner seems appropriate to the Directors at that time.

Companies should consult with their relevant Taxation Consultant, Legal Adviser and/or Financial Broker when considering a Keyperson Insurance arrangement.

In summary

Keyperson Insurance from Royal London Ireland is Life Cover purchased by a company on the life of one or more key employees, whose skills are regarded as vital to the success of a company and whose loss could possibly have damaging financial consequences.

With Keyperson Insurance, the employer of the Keyperson(s) pays the policy premiums and, in turn, the company receives a lump sum payment on the death of the individual insured under the policy.

Keyperson Insurance enables you to put the appropriate structures and processes in place now, helping to ensure that your company has the funds available to minimise the financial implications that may arise from the death of a Keyperson, and can help ensure the continued financial stability and success of your company.

Ultimately, in the event of the untimely death of a Keyperson in your organisation, having a Keyperson Insurance policy from Royal London Ireland in place can help provide you and your company with added security and peace of mind.

Your Financial Broker will be happy to take you through the range of benefits associated with Keyperson Insurance from Royal London Ireland. They can help you put a solution in place to meet your individual organisational needs.

Added protection

Specified Serious Illness Cover from Royal London Ireland provides additional security to you and your business.

What is Specified Serious Illness Cover?

Specified Serious Illness Cover from Royal London Ireland provides additional security to you and your business. It pays a guaranteed lump sum if the insured person on a Keyperson Insurance policy is diagnosed as suffering one of the covered specified serious illnesses during the term of the policy.

How would your business cope?

As with the death of a Keyperson in your company, their unexpected serious illness can also undermine the financial stability of your business.

The solution

By choosing a **Royal London Ireland Specified Serious Illness Cover policy** and having sufficient cover in place, you could lessen or perhaps even solve some of the financial problems that may occur if one of your key employees gets seriously ill.

Why take out Specified Serious Illness Cover?

You may think that the chances are unlikely, but the probability of suffering a serious illness may be much higher than you think.

Did you know?

- In Ireland, 1 in 3 men will get cancer by age 75.
- In Ireland, 1 in 4 women will get cancer by age 75.
- The five-year average net survival of Irish cancer patients for the diagnosis period 2014-2018 is 65%.
- Approximately 7,500 people suffer a stroke in Ireland each year.

Sources: National Cancer Registry of Ireland (2023) Cancer in Ireland 1994–2021: Annual Report of the National Cancer Registry; Irish Heart Foundation (2023).

With adequate Keyperson's Insurance Life Cover and Specified Serious Illness Cover in place, you will have a lump sum available to help deal with any adverse business consequences caused by the death or serious illness of a Keyperson in your organisation, such as:

- A reduction in company profits.
- Paying off outstanding bank loans or company bills.
- Recruiting a replacement.

Your Financial Broker will take you through the range of benefits and options offered by Royal London Ireland and can tailor the plan so that it best meets your needs.

Please note:

Not all incidences of illnesses such as cancer or a stroke will be covered under Royal London Ireland's Specified Serious Illness Cover policy. We will only pay a claim based on our Specified Serious Illness Cover definitions. The Policy Conditions provide a detailed description and explanation of the specified serious illnesses we cover, the exact conditions which must be met for a claim to be paid and the terms and conditions that apply. The Policy Conditions booklet is available on request from your Financial Broker.

Important additional information

Taxation treatment of Keyperson Life Cover

Prior to structuring a Keyperson Insurance arrangement, companies must consult their relevant independent Legal Adviser, Taxation Consultant and/or Financial Broker.

The following information is for general purposes only. For additional details relating to the Revenue treatment of Keyperson Insurance policies, please refer to Appendix 1 on page 15 of this brochure.

Policy proceeds

The chief factor determining whether the proceeds of the policy will be subject to Corporation Tax is the **purpose for which the policy is taken out**, i.e. whether the policy is intended to cover a 'capital' or 'revenue' type loss.

If the purpose is to protect a company loan, the proceeds of a company-owned policy paid out on death of the Life Assured are likely to be treated as a capital receipt and will be exempt from tax. As profits earned by a company are subject to Corporation Tax, the proceeds of policies affected to protect against 'loss of profit' are generally deemed as a 'revenue receipt' and are subject to Corporation Tax.

General recommendations

Due to the differing tax treatment of policy proceeds depending on the purpose of the policy, Royal London Ireland recommends:

- If the policy is intended to provide for both loan cover (capital loss) and loss of profit, it is advisable to split the cover between two separate policies so as to clearly identify the purpose of each policy and hence its taxation treatment.
- The company should pass a Board Resolution stating the purpose for which each of the policies is being taken out.

Obtaining Corporation Tax relief on premiums paid

Generally speaking, Keyperson Insurance premiums are NOT admissible deductions for Corporation Tax.

However, the Revenue Commissioners have outlined four conditions that must be fulfilled where premiums may qualify as admissible deductions for Corporation Tax purposes.

Appendices

Appendix 1 - Revenue clarification on tax deduction for premiums

Conditions for tax deduction

The following is an extract from a Circular issued by the Superintending Inspector of Taxes, dated July 1986, with regard to the admissibility of Keyperson Insurance **premiums** as an allowable deduction for Corporation Tax:

"...the allowability or otherwise of premiums paid will 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 a), b), c), d) (see page 5 of this brochure), the following guidelines are followed:

1. "Employee" is taken as including a Director.
2. A person who directly or indirectly owns or is able to control more than 15% of the ordinary share capital of a company is regarded as having a substantial proprietary interest in the company...
3. The policy must be for a fixed term with no surrender value and no endowment or other investment content; it must not contain provisions whereby benefits could be paid to any person other than the employer.
4. The insurance must be related to loss of profits only and it will be necessary to satisfy the Inspector of Taxes 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 become repayable on the death of an employee are not admissible deductions."

So, for example, premiums on a Keyperson Insurance policy effected solely for the purpose of repaying loans do **not** meet the four conditions.

It is advisable to write to the Revenue Commissioners if you are in doubt as to whether or not your Keyperson Insurance premiums are tax redeemable.

Appendices continued

Policy proceeds

The Revenue Commissioners set out their general position regarding the taxation of the proceeds in the hands of the company in a circular dated July 1986 as follows:

"While the allowability of a premium or the chargeability of a benefit are strictly separate issues, **it will usually be the case that, if the premiums are allowable for tax purposes, the benefit is chargeable to tax and if the premiums are not allowable, the benefit is not chargeable.** However it would not be accepted that a benefit is not chargeable to tax simply because an employer decided not to claim a tax deduction for the premiums."

However, the Revenue Commissioners have also indicated that if the Inspector of Taxes is satisfied that if the "intention on taking out the policy" was to "insure against loss of profits" then part or all of the proceeds may be treated as a taxable trading receipt, even though one or more of the conditions a)–d) (as set out on page 5 of this brochure) is not met, and even if tax relief was not claimed on the premiums.

Even where part or all of the proceeds are treated as a taxable trading receipt, the use of the proceeds may create a corresponding tax deduction, e.g. if the proceeds were used to pay a salary to a suitable replacement.

Appendix 2 – Sample Board Resolution

A sample Resolution is set out below:

"It is resolved that [**Company**] shall effect a Keyperson Life Assurance policy with [**Provider name**], to protect [**Company name**] against the financial consequences resulting from the death of [**Keyperson**], while in the service of [**Company**].

[**Mr/Ms X**] is hereby authorised to complete all the necessary documentation on behalf of [**Company**] and it is hereby declared that the proceeds of the policy beneficially belong at all times to [**Company**]."

Royal London Ireland recommends that you seek advice from your Taxation Consultant, Legal Adviser and/or Financial Broker before putting any measures in place and write to your tax office seeking clarification on the relevant tax treatments.

Want to know more?

If you have a question about Keyperson Insurance then you can contact your Financial Broker. They can provide you with any additional information you need. See details below.

Financial Broker Stamp:

For information about Royal London Ireland visit our website:

Website
www.royallondon.ie

For information about our Privacy Policy, please read our Privacy Notice available at **www.royallondon.ie/privacy-policy**

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Feedback on the content and clarity of this booklet is very welcome.
Please email feedback@royallondon.ie

The information contained in this brochure is based on Royal London Ireland's understanding of current law and Revenue practice as at June 2024 which may change in the future.

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