Business Insurance.

Strategy Information Flyer

Business expense insurance.

Business expense protection is a form of revenue protection specifically designed for small businesses. Without both business expense protection and income protection insurance, many small business owners would not be able to provide for their families or keep their businesses afloat if they were absent due to sickness or injury, even for a short time.

Business expense protection allows a small business owner to insure against loss, due to sickness or injury, for reimbursement of the actual fixed business expenses incurred during a period of disability, up to the policy limit. These are expenses that must be paid whether the business generates revenue or not.

As a small business owner, income protection insurance generally only covers you for up to 70% of your personal exertion income. Business expenses protection indemnifies the business for up to 100% of the actual regular normal expenses it incurs.

While income protection can provide a benefit typically to the insured's 65th birthday (or up to 70 with some insurers), business expenses protection has a benefit period that is usually limited to 12 months.

Business expense insurance covers fixed costs such as:

- Office leases or interest on your property loan;
- Salaries and super for staff who do not generate revenue;
- Equipment leases;
- Accounting fees;
- Utility bills;
- Car lease payments;
- Insurance premiums; or
- Costs of a locum while you recover.

Business succession planning.

Business succession planning is focused on ensuring all parties in the business are protected, and the wishes of the current owners are taken into account upon the event of their death, permanent disablement, serious illness/trauma or other circumstances.

This should include funding for the buying out of the partner who can no longer take part in the business. This is referred to as a buy/sell option agreement.

The untimely death, injury, or dispute of business co-owners can often lead to financial ruin of the business. However, these risks can be managed or avoided by implementing suitable

business succession agreements and related insurances, which ultimately protect the owners, their families, and their estate assets.

Business succession planning done correctly may include accountants, lawyers, bankers and financial planners.

The process will formalise several areas, including:

1. **A buy/sell option agreement** is an agreement between co-owners of a business granting each other options to buy or sell their respective interests upon the occurrence of specified option events.

   The option events generally include:
   - The death of a co-owner;
   - The permanent disablement of a co-owner;
   - Serious illness/trauma in connection with a co-owner where they are no longer able to continue to work in the business; and
   - The retirement or expulsion of a co-owner (although these circumstances would ordinarily be dealt with in a shareholders agreement or partnership agreement if one existed for the business).

2. **Enforceable buy/sell option agreements** overcome disputes concerning the buyout of a co-owner's interest in a business including:
   - Rights to buy or sell;
   - Valuations of interests;
   - Timing of payments; and
   - Funding arrangements.

3. **Funding agreements** are frequently entered into in connection with buy/sell option agreements and provide for the funding of the price for a co-owner's share if an option to buy or sell is exercised.

   Funding is usually provided by:
   - The maintenance of personal insurances in respect of the co-owners;
   - Agreements in the form of vendor finance; or
   - A combination of each.

Ownership of insurance.

Cross-ownership refers to the ownership of an insurance policy in respect of the life insured by all owners of the business other than the life insured. Cross-ownership also includes circumstances where the business itself may own a policy in respect of the life insured. For example, where there is an agreement to apply the proceeds towards debt reduction or to fund the buy-back of shares in the company.

Cross-ownership is sometimes preferred to ensure that the insurance proceeds are received by the continuing owners (purchasers) who can then control the application of those monies, which would usually include:

- The payment of the purchase price for the outgoing owner's interest in the business; and

- If part of the business succession plan, payment of monies to reduce the debt of the business.

While a capital gains tax (CGT) exemption is available for death benefits, cross-ownership may result in a CGT liability in the case of non-death benefits (such as total and permanent disablement (TPD) or trauma benefits) paid following a claim. As such, unless the amount insured for non-death benefit cover is increased to anticipate the CGT liability, cross-ownership will result in an avoidable CGT liability. As such, alternative structures such as self-ownership of trust ownership may be considered depending on tax and legal advice.

Key person insurance.

Key person insurance is needed if the sudden loss of a key executive or key team member would have a significant negative effect on the company's operations. The insurance payout gives the company the ability to spend time finding a new person to replace the lost key team member or develop other strategies to save the business.

A key person is someone whose contributed association with a business provides that business with a significant and direct economic gain. Economic gain means more than just profits. It can, amongst other things, also include cost savings, capital injections, goodwill, access to credit and access to customers. A typical example of a key person is an employee who is directly responsible for bringing in sales or who holds the key technical expertise on which a business relies.

The owners of the business will usually be key people. The following list is an example of the type of people who would qualify:

- **Managing director** – whose expertise, ingenuity and ability enable the business to run smoothly, operate within budget and establish a strong market presence;
- **Sales manager** – whose unique contacts or business methods give the business a competitive edge;
- **Financial controller** – who has set up a budgeting and reporting system that has saved the business money, and will continue to do so as the system develops.;
- **Computer programmer** – who has been contracted to write a software program that the business can on-sell, and who the business may later contract to maintain;
- **Specialist engineer** – whose knowledge enables the business to win contracts;
- **Working director** – who does the work of two employees, but only draws a moderate salary so that more money can go back into the business.; or
- **Silent partner** – whose strong reputation with financiers allows the business to access more or better financing.

Three types of risks can be covered by key person insurance. These types of policies are:

- Death;
- TPD; and
- Trauma.

Ownership of the policy.

Insurance providers will treat key person policies like a normal policy. It is only the ownership structure where the differences to personal life insurance come into play.

Key person insurance is often owned by the business, as the business is generally the entity that will require the proceeds of the policy. In some circumstances, key person insurance may be owned by a lender to the company or the guarantor of business debt.

You should discuss ownership options, and their implications, with your financial adviser and accountant.

Tax considerations.

If you take out key person insurance for revenue purposes, such as replacing a fall in business income or an increase in business expenses, then your insurance premiums are tax-deductible.

On the flip side, the insurance proceeds are taxable. You can claim a tax deduction for expenses incurred by the business, and this may offset the tax payable on the insurance proceeds.

If you take out key person insurance for capital purposes, such as to repay debt or compensate for the loss of goodwill, then your insurance premiums are not tax-deductible.

The proceeds may be subject to CGT, depending on ownership and applicable exemptions.

Your accountant or tax consultant can advise you on the tax implications of key person insurance for your business.



This document was prepared by Enzumo Pty Ltd. It contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before committing to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice. As legislation may change, you should ensure you have the most recent version of this document.

Version: 27 October 2026