

A GUIDE TO BUSINESS LOAN PROTECTION INSURANCE

This provides a brief summary of the cover provided. The actual policy wordings should be reviewed for specific details of coverage.

When a business borrows money for its own use today, financiers often require personal guarantees from Director / Shareholders as additional security. This is normally in addition to debenture security or real estate by way of mortgage.

The Problems

In the event of death or disability of a Shareholder / Director who has given personal guarantees that loan must either be paid back or additional security provided before the estate can be settled.

Often cash is simply not available immediately and so the company must find additional security to cover the deceased's share or look to the assets of the deceased's partner to repay the loan.

The ramification of personal guarantees must be fully understood by company Shareholders / Directors and protected against death or disability.

Solution – Business Loan Insurance

The company takes out a life insurance policy on its Shareholders / Directors to protect the amount of corporate borrowings.

Generally, term insurance is used because it is flexible but a permanent contract is very useful where the cash value can be used to repay the borrowings over time.

Critical Illness (Living Assurance) contracts can also be applied for this purpose.

The Tax Position

The current view is that premiums paid on Business Loan Protection Term policies are deductible for tax purposes. Also provided proceeds in the event of a claim against this policy are not of a "loss of profits" nature it appears that the payment may be of a capital nature and would not necessarily be assessable for income tax purposes.

We do not have a binding ruling on this matter from the IRD and it is essential the position be confirmed with your own tax adviser.