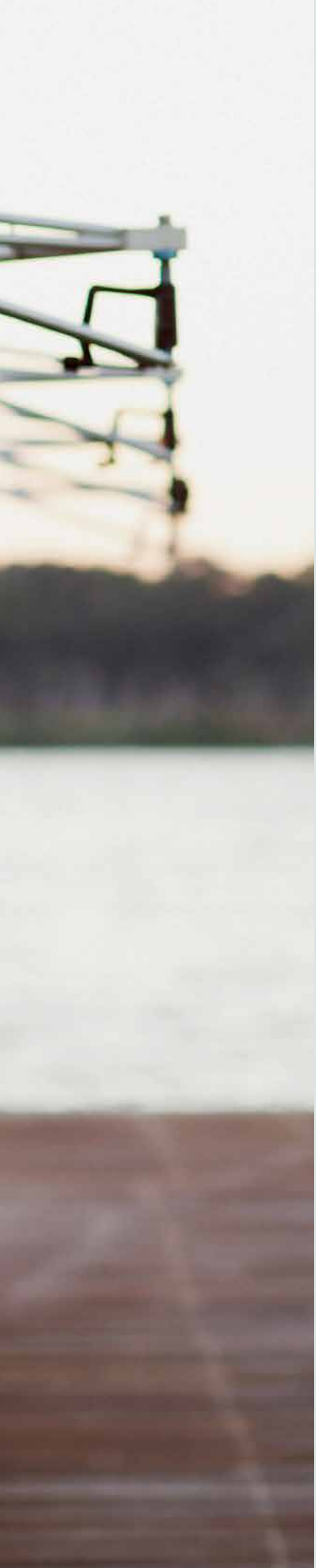
November 2015

Protecting Business by Protecting Partners

Partnership Protect



Why purchase Partnership Insurance?

A Partnership is a form of business ownership with two or more owners who agree to pool talent and money, and share the profits or losses of that Partnership. The death of one of the partners can have serious financial consequences for those left behind in that business.

Partnership Insurance will protect the financial security of the partnership by making sure that funds are available to compensate the deceased partner's estate for his/her share of the Partnership.

A Partnership Insurance policy can also cover the diagnosis of a serious illness of a partner.

Forms required

Own Life in Trust **(see page 4)**

- Partnership Insurance Application Form ✓
- Partnership Insurance Trust Form ✓
- Partnership Insurance Double Option Agreement – Own Life in Trust ✓
- Partnership Insurance Financial Questionnaire ✓

OR

Life of Another **(see page 4)**

- Partnership Insurance Application Form ✓
- Partnership Insurance Double Option Agreement – Life of Another ✓
- Partnership Insurance Financial Questionnaire ✓

Self Insurance **(see page 5)**

- Partnership Insurance Application Form ✓
- Partnership Insurance Financial Questionnaire ✓

This guide is designed as a quick reference to the main features of the policy. For full details of any individual cover or any other aspect of the policy, you should consult the Policy Document, which is definitive in all matters of interpretation and entitlement to benefit. In the event of any conflict between this brochure and the Policy Document, the provisions of the latter will prevail.

Structure of a partnership

A Partnership comprises two or more self-employed people operating together in a trade or profession.

If no Partnership Agreement exists, the survival of the Partnership depends on the Partnership Act of 1890, which states that in the event of the death of a partner, the partnership is dissolved and any sum due to the deceased partner is to be treated as the debt of the Partnership.

This debt can consist of any capital that the partner had invested in the business and the deceased partner's share of undrawn profits. In addition, the successor(s) may be entitled to a payment for a share of the goodwill* of the business if it has been recognised by the partners as an asset of the Partnership.

* Goodwill may be defined as the anticipated value of the partnership's name, tradition and contacts.

The Partnership Agreement

Before entering into a Partnership Insurance arrangement, any pre-existing Partnership Agreement must be consulted because this will generally define how the partnership is to be continued by the surviving partners, and how the share of capital of the deceased, if any, will be payable to the successor(s).

The Surviving Partners

In the event of the death of a partner, the surviving partners face the prospect of having to find a substantial capital lump sum. If advance provision is not made, the surviving partners may be faced with the need to borrow capital to fund repayment to the deceased partner's estate.

Setting up Partnership Insurance

The approach to arranging the life insurance cover and to quantifying the amount of insurance required will depend on what payments need to be made by the surviving partners. The liability in respect of the capital injection and any undrawn profits is relatively straightforward to calculate.

The most important factor to be decided is whether or not there will be payment in respect of goodwill. Goodwill can be very difficult to calculate; it is often taken as a multiple of the fee income of the firm. Professional advice from the accountant to the partnership should be obtained for direction in calculating goodwill.

There are two methods of setting up Partnership Insurance:

- Own Life in Trust, or
- Life of Another.

Each of these is discussed overleaf.

In addition, if there is no provision for surviving partners to make a payment in respect of goodwill, a partner may choose to effect additional 'Self Insurance' to cover the value of goodwill. This arrangement is discussed on page 5.

Own Life in Trust

The steps in setting up an Own Life in Trust arrangement are as follows:

1. Each partner effects a life insurance policy on his/her own life, for a sum insured equivalent to the estimated full market value of his/her partnership share. The premiums are generally paid by the partners themselves or by the partnership from that partner's share of the profits. The premiums are not tax deductible.

2. Each policy is arranged under trust (using a Partnership Insurance Trust Form) so that on death, the proceeds are payable directly to the trustees for the benefit of the surviving partners.

3. A legal agreement is put in place between the partners using a Partnership (Double Option) Agreement. This gives the surviving partners an option to buy the deceased partner's share. It also gives the successor(s) of the deceased partner the option to sell the share of the partnership to the surviving partners.

If either party exercises his/her option, the Agreement obligates the surviving partners to buy the deceased's share of the partnership at a fair open market value and obligates the successor(s) to sell the share of the partnership back to the surviving partners.

If both parties mutually agree not to exercise their options, this allows the successor(s) to retain their share of the partnership and come into the business.

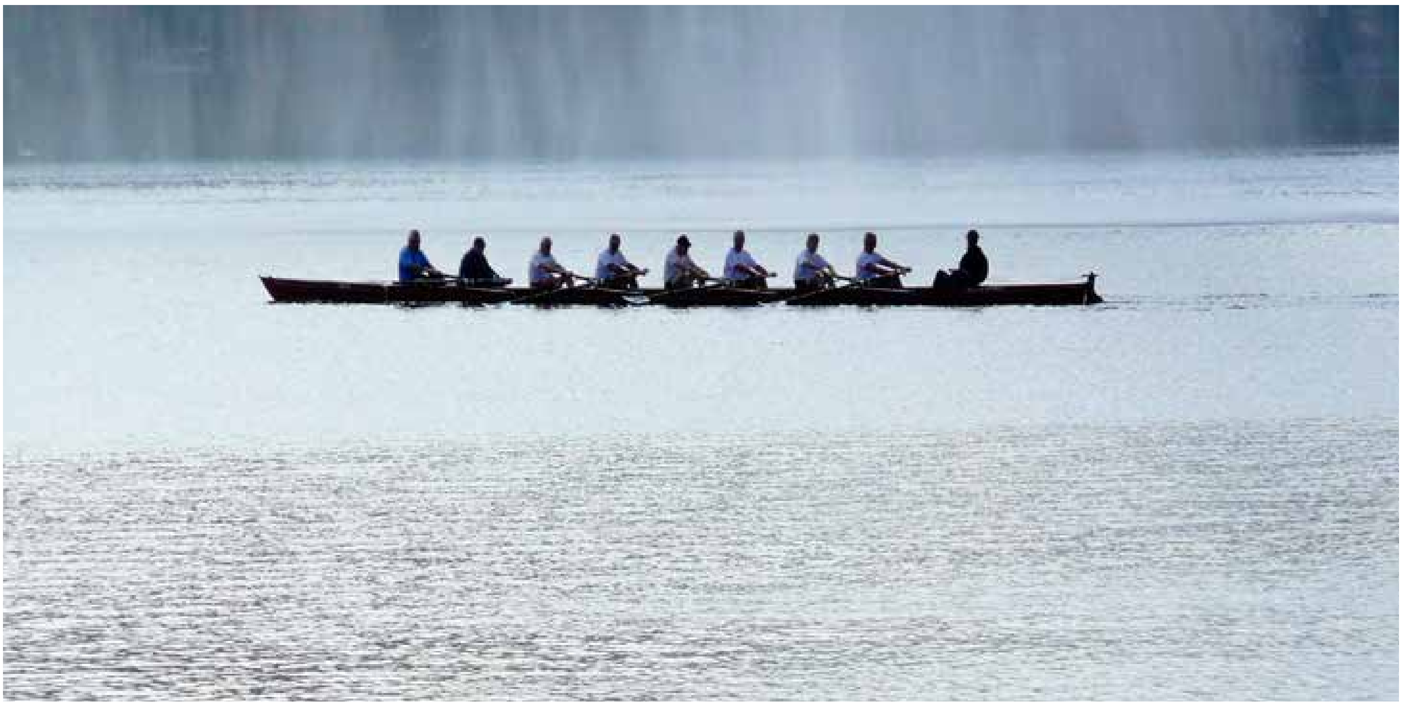
There is an alternative legal agreement available known as a Buy and Sell Agreement, whereby the sale transaction must always be carried out.

In either case, the agreement should be referred to a solicitor for examination.

Inheritance Tax Implications

To ensure that there is no Capital Acquisitions Tax (i.e. Inheritance Tax or Gift Tax) liability on the insurance policy proceeds in the hands of the surviving partners, certain Revenue guidelines must be met. These include the need to show that the policies are clearly effected as part of a commercial arms length arrangement and are part of a reciprocal agreement between the partners.

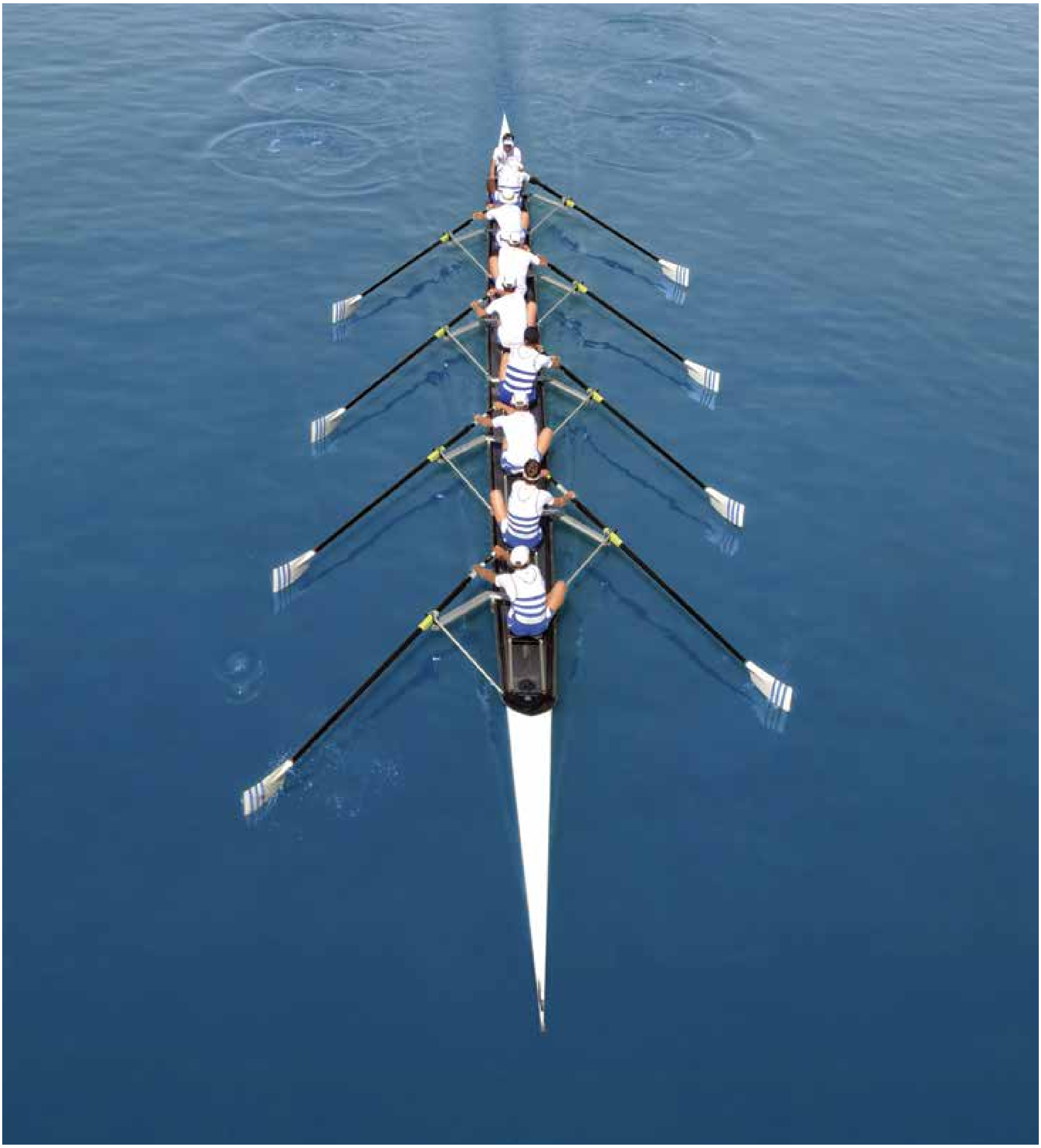
This agreement can be included as a clause in the Partnership Double Option Agreement/Buy and Sell Agreement. Any surplus not used by the surviving partners to purchase the deceased partner's share will be liable to Capital Acquisitions Tax.



Life of Another

The steps in setting up "Life of Another" arrangement are as follows:

- Under a Life of Another arrangement, each partner takes out a policy on each of the other partner's lives. This is generally only feasible where there are a small number of partners and the partnership composition is unlikely to change.
- On the death of one of the partners, each of the others receives the proceeds of his/her policy, which can be used to buy out the deceased partner's share in the partnership.
- A legal agreement is put in place between the partners using a Double Option or Buy and Sell Agreement, as previously set out.
- As each partner receives the proceeds of the policy for which he/she paid the premiums, there is no liability to Capital Acquisitions Tax.



Payment of Premium

The partners should pay the premium themselves for the policies which they own.

If the premiums are paid through the firms account, the partners must be seen to suffer the cost of the premium. There is no tax relief available on premiums.

Self Insurance

On the death of a partner, if there is no provision for the surviving partners to make a payment in respect of goodwill, a partner may choose to effect additional 'Self Insurance' to cover the value of goodwill.

- Each partner takes out a life insurance policy on his/her own life for a specified amount. The amount of cover is set to provide compensation to his/her estate for his/her share of goodwill in the partnership.

Possible Tax efficient solutions

This method of arranging cover can be tax deductible for the individual partners if a Section 785 policy (life cover under a Personal Pension Plan) is taken out. In this scenario the application form for The Pension Guaranteed Term Protection should be completed.

Tax Implications

Normal Capital Acquisitions Tax rules apply, e.g. if the funds go to the spouse of the deceased, there will be no Capital Acquisitions Tax liability.

For More Information

Talk to your financial broker or advisor

Call our Financial Planning Team directly on **1850 202 102**

Email us at **customerservices@zurich.com**

Visit our website at **zurichlife.ie**

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