



# Protection against business interruptions

For most business owners their business and the income that the business generates is one, if not, their most important asset. The business owner and his/her family are dependent on that income, the business' future depend on it and all the employees employed in that business is also sustained by it.

## The Risk – upon the temporary disability of the business owner

The disability of the business owner will generally have a detrimental impact on the business and will impact not only the short term income flows but also the long-term sustainability of the business. If the business cannot maintain its business overheads it will surely face losing clients, employees and potential insolvency.

## The Solution

The business can insure the life of that business owner by taking out a Business Overhead Protector or Business Protector policy. This policy will ensure that there is sufficient cash flow to absorb the monthly running costs of the business and to sustain the business' salary expense for a short period of time. This will afford the business owner and business the time to review the overall impact of the disability on the business and to plan effectively for the future thereof. In this instance the business will own the policy, pay the premiums and receive the proceeds.

In addition, the business owner can also insure his own life with an Income Protection policy to replace any

income lost during permanent disability. In this instance the individual business owner will own the policy and pay the premiums and upon his permanent disability the policy will start paying him an income until the age of 65.

### Benefits for the business and its employees:

- The business can continue to fund its running expenses;
- The employees will continue to receive their monthly income;
- The business' short term sustainability is secured;
- The employees can be assured that the untimely disability of their employer will not result in their immediate unemployment and
- The business owner has time to plan for the business' future. If he is only temporarily disabled, the business will continue unhindered upon his recovery. Should his disability be permanent, the business can sustain itself during the winding-up process.

### Benefit for the business owner:

- The business owner can focus on recovery with the knowledge that the business is self-sufficient;
- The business owner is secured of an income during his disability;
- The business owner's dependents' standard of living will not be unnecessarily impacted on; and
- Should the business owner's disability become permanent, he will continue to receive an income until retirement age.

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# Business interruption protection

## Technical information

### 1. Business overheads protection and Business protector policies

#### Income tax implications on the premiums paid

The business is the policyholder and pays the premiums. The business will also be entitled to a tax deduction in respect of premiums paid if all the requirements of section 11(w)(ii) are met. The requirements are as follows:

- The taxpayer (policyholder) is insured against any loss by reason of death, disablement or severe illness of an employee or director;
- The policy is a risk policy without a cash value;
- The policy is owned by the taxpayer at the time of paying the premiums; and
- The policy agreement states that section 11(w)(ii) applies to the premiums payable under the policy.

Please note that Momentum automatically includes the section 11(w)(ii) reference in the policy contract where a business owns one of the policies on the life of an employee.

#### Income tax implications on the proceeds paid

If one of the abovementioned requirements is not complied with the proceeds will pay out tax-free. An exemption in terms of section 10(1)(gH) will apply.

If all the requirements of section 11(w)(ii) are met, the proceeds will be included in the taxpayer's gross income under paragraph (m) of the gross income definition.

### 2. Employer owned Income Protection and Temporary Income Protection Benefits

#### Income tax implications on premiums

Premiums paid in respect of an employer-owned income protection and/or temporary income protection benefit that is intended to benefit the employee (the life insured) in the event of disablement or illness will be tax deductible if the requirements of section 11(w)(i) of the Income Tax Act are met. The requirements for the premiums to be tax deductible are as follows:

- The policy relates to the death, disablement or severe illness, including policies with cash values, of an employee/director of the taxpayer; and
- The premium paid by the employer is deemed to be a taxable benefit (in terms of the Seventh Schedule) granted to the employee/director. Therefore the life insured pays income tax on that premium.

The employee will also enjoy a tax deduction in his/her personal capacity in respect of the premium that was paid by the employer which is included in his/her income as a fringe benefit. This deduction is allowed in terms of section 11(a) read with section 23(p) of the Income Tax Act.

#### **Income tax implications on proceeds**

The income payable under this benefit will constitute gross income as defined by the Income Tax Act and will be taxable in the hands of the employee. Momentum will pay the amount to the employer without the deduction of any income tax and the employer will then pay the amount to the employee as income. The employer will be obliged to withhold PAYE from the amount paid to the employee.

### **3. Individually owned Income Protection and Temporary Income Protection Benefits**

#### **Income tax implications on premiums**

Premiums paid in respect of income protection and/or temporary income protection benefits that cover the policyholder against the loss of income as a result of illness, injury or disability will be tax deductible under section 11(a) of the Income Tax Act, provided the amounts payable in terms of that benefit constitutes gross income as defined by the Act.

#### **Income tax implications on proceeds**

The income payable in terms of this benefit will constitute gross income as defined by the Income Tax Act and will therefore be fully taxable. Momentum is obliged in terms of the Fourth Schedule to the Income Tax Act to withhold PAYE on all amounts paid to the individual policyholder under the said benefits.

