Partnership Insurance

An insurance which is given to all insurable Partners in the Firm

Exit of any partner due to premature death would result in to dissolution of the firm and surviving partner have to pay to legal heirs of the deceased partner " PURCHASE PRICE" Of deceased partners share

Then the Question arises how does the firm arrange for the funds to provide for the above "PURCHASE PRICE"

Why is partnership insurance necessary ?

- On death of a partner the Partnership firm will cease to continue in its original shape
- Legal heirs of the deceased partner if taken as partners, may not co-operate with other partners, or may not be having required knowledge or expertise as that of deceased partner
- "PURCHASE PRICE" required to be paid to the legal heirs may have to be paid from the funds of the firm

- **Many times assets of the firm have to be sold**
- **In extreme case business may be wound up**
- **Outside interference may not be desirable from the point of view of the remaining partners**

The firm **must have** a partnership agreement, which declares that if any partner dies, the living partner will have right to purchase the deceased partners share in the firm

Advantages to the firm

- Money received from Insurance Claim would be utilized for settling the account of the deceased partners share without disturbing the working of the firm
- Deceased partners family is assured of early settlement of their dues
- Firm is secured against an unforeseen or sudden setback
- In event of legal heirs taken as partners, the firm has a large additional resource

Conditions for the amount of insurance

- All the insurable partners must be insured
- Each partner will be insured separately for the amount equal to his/her capital amount standing to his/her credit as per last assessment year
- Sum assured minimum amount of 50,000 and not exceeding amount of capital brought in by any single partner
- Keeping in view the growth of the firm, insurance amount of each partner will be increased by giving credit for the goodwill of the firm
- Goodwill of the firm will be equal to total net profit of the last 3 assessment years
- The above goodwill will be proportionately added to the capital of each partner depending on his share of profit in the firm

- The partnership agreement should have a clause if that the partnership can be revoked definitely if a partner dies
- Age criteria 75 Years – oldest Partners Age
- At the death of the partner capital of the partner must be withdrawn
- Assignment not allowed, Except the partnership is broken and the firm can not pay the premiums
- Nomination not allowed
- Only Term Insurance Allowed

Requirements

- Proposal Form No 340
- The object of insurance will be to protect against the loss of profit on the withdrawal of capital on death of a partner
- Letter of authority in favour of partner singing the proposal
- Copy of deed of Partnership duly attested by the partner authorised to sign insurance proposal
- Copies of audited Balance sheet and P/L account for the last 3 years

- **Copies of audited balance sheet containing schedule of partners capital A/C**

Tax benefits of Partnership Insurance

- Premium Paid by firm will qualify as eligible business expense under Sec. 37(1) of income Tax Act
- Premium paid by the firm is not a perquisite in the hands of the partner
- The Death claim amount will be added to the business income of the firm in the year of receipt

- On Dissolution of the partnership firm during the lifetime of the partner, firm has the following choices

  - It can discontinue Paying the premiums

  - It can assign the policy to partners

Because policy has no surrender value

Thanks