PARTNERSHIP INSURANCE

A PROMISE OF CONTINUITY

(Cir: Actl/2000 dt.11/03/2005)

What is Partnership Insurance?

In a growing partnership firm, continuous co-operation of each partner of the firm is essential to insure that business is protected against any situation, which may arise to hinder the smooth running of the business.

Exit of any partner due to premature death would result into dissolution of the firm and surviving partners have to pay to legal heirs of the deceased partner the **"PURCHASE PRICE"** of deceased partners share. Than the question arises: How does the firm arrange for the funds to provide for the above **"PURCHASE PRICE"?**

The firm on the lives of all the partners takes Insurance under Partnership Insurance and in event of premature death of any partner firm gets the insurance proceeds. This would be utilized for settling the deceased partner's share without disturbing the working of the firm.

Why is Partnership Insurance necessary?

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

Advantages to the firm:

- Money received from LIC would be utilized for settling the account of the deceased partner's share without disturbing the working of the firm.
- Deceased partner's 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 partner, 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.
- 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 three assessment years.
- The above Goodwill will be proportionately added to the capital of each partner depending on his share of profit in the firm.

Requirements for proposal for Partnership Insurance:

- Proposal Form in F.No. 340 for each partner.
- The object of insurance will be to protect against the loss of profit on the withdrawal of capital on the death of a partner.
- Letter of Authority in favour of partner signing the proposal.
- Copy of Deed of Partnership duly attested by the partner authorised to sign insurance proposal.
- Copies of Audited Balance Sheet and Profit & Loss A/Cs for the last 3 years.
- Copies of ITRs of the firm for preceding 3 years duly attested by the authorised partner.
- The copy of audited Balance Sheet containing schedule of partner's capital A/cs.
- The policy is to be kept unassigned. A clause should be provided in the partnership deed to go in for Insurance on the lives of the partners. For this a supplementary deed has to be provided to include the above clause.

NOTE: Usually partnership insurance is to be taken on the lives of all the partners of a firm.

Plans Allowed:

Plan 822- Anmol Jeevan II, and Plan 823- Amulya Jeevan-II.

Tax Benefits of Partnership Insurance:

- Premiums paid by firm will qualify as eligible business expenses under Sec.37 (1) of the Income Tax Act.
- Premiums paid by the firm are not a perquisite in the hands of the partner.
- The Maturity/Death claim amount received by the firm will be added to the business income of the firm in the year of receipt.
- On dissolution of the Partnership firm during life time of partners , firm has following choices:-
  c) It can surrender the policy.
  d) It can assign the policy to partners, as policy has no surrender value.

How is Partnership Insurance A bonanza for Partnership Firms?

- The firm is protected against the closure of the firm in event of death of any of the partner.
- The firm is able to create an asset for itself in the form of Sum assured and guaranteed/loyalty additions.
- It gives a substantial relief to the firm in Income Tax.
- It protects the interest of other employees and customers.
- It keeps the firm's position stabilized in the market.
- It generates confidence, sense of security and loyalty in the minds of partners.
- It can be given as security to Bankers even though policy is not allowed to be assigned.
- It is a guarantee to the creditors.