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.

In this issue of TechTalk, we look at Partnership Insurance, specifically where there is a need for insurance and how the policies of insurance are set up

Partnership Insurance

The Partnership Act 1890 defines a Partnership as "the relation which subsists between persons carrying on a business in common with a view to making a profit", so a Partnership is two or more self-employed individuals engaged in a trade or profession.

The Partnership Act 1890 also states that in the event of one partner dying, where there is no Partnership Agreement in place, the business is dissolved and any sum due to the deceased is treated as a debt to the partnership. In simple terms, the share of the business attributable to the deceased partner is payable to his/her personal representatives.

Most partnerships these days will have an agreement in place which will outline what happens to the business in the event of one partner dying. However if the surviving partners want to carry on, they will still need the funds available to buy back the deceased's share of the business.

Partnership Insurance is therefore advisable to be put in place so the surviving partners receive a lump sum with which they may purchase that business share back from the personal representatives of the deceased.

Setting Up Partnership Insurance

The contract used for Partnership Insurance would generally be a level term protection plan, with maybe a conversion option attaching should the partners intend to work past their intended retirement date.

The policies of insurance can be set up in two ways:

1

Own Life in Trust

Using the 'Own Life in Trust' approach, each partner effects a life assurance policy on his/her own life, for a sum assured equivalent to the estimated full market value of his/her partnership share.

Each policy is arranged under Trust so a Partnership Trust Form should accompany the proposal form when being submitted to the life company. This means that on death the proceeds are payable directly to the trustees for the benefit of the surviving partners, thereby giving them the capital to buy out the deceased's share of the business.

2

Life of Another

Under 'Life of Another' each partner takes out a policy on the other partners' 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 receive the proceeds of their policy which can be used to buy out the next of kin.

Advantages/disadvantages of each arrangement

Setting up Partnership Insurance under the 'Own Life in Trust' has the advantage of being more flexible, i.e. the number of policies being taken out is limited to one per partner and if another partner joins the firm, he/she'd just set up their own policy.

A disadvantage is that the cost distribution may be uneven. For example, older partners pay higher premiums as they own the policies on their own lives at an older age.A solution to this would be for the younger partners to compensate the older partners for the higher premiums being paid.

Conversely, the 'Life of Another' method has a correct cost distribution as the younger partners insure the older ones. The problem is the number of policies being set up, which can be quite numerous. For example, if there are five partners in a firm there would be twenty policies.

By all accounts, the most popular method in setting up Partnership Insurance is 'Own Life in Trust'.

Quantifying the cover

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 as there should be record of this already to hand.

The most important factor to be decided is whether or not there will be payment in respect of Goodwill.

"Goodwill" is the tradition of the firm within the community, it's 'name' and reputation and the continuing success of the firm depends on this goodwill.

Goodwill therefore can be very difficult to calculate. Professional advice from the accountant to the partnership should be obtained for direction in calculating goodwill. The options for partners in respect of covering good will would be as follows:

(a) Determine a value for Goodwill and include it in the sum insured of the Partnership Insurance policy.

(b) Each partner can 'self-insure' where they decide to take out their own policy which would be payable direct to their estates, to compensate for Goodwill. This could be done via a S785 policy or Pension Term Insurance.

(c) Each partner can decide to ignore the element of Goodwill altogether and have it omitted from the cover.

Tax issues.

In each case, the premiums would be payable by the partners themselves for the policies that they own. The premiums can be paid by the partnership account but must come from that partner's share of profits as each partner should be seen to suffer the cost.

There is no tax benefit to either the partnership or the partners in respect of the premiums i.e. there is no tax relief on the premiums being payable.

When a claim is made under a policy set up under 'Life of Another' there is no tax liability for the policy owner. This is because each partner receives the proceeds of the policy for which he/she paid the premiums.

Under 'Own Life in Trust' there may be a liability to inheritance tax as a trust will always trigger Capital Acquisitions Tax. However, in order for this to be avoided, Revenue have advised guidelines which, if met, means there is no inheritance tax on receipt of the sum insured.

These guidelines include the need to show the policies were clearly affected as part of commercial arms-length arrangement & were part of a reciprocal agreement (Buy/Sell Agreement). Any surplus of the sum insured not used in purchase of the share of business will be liable to inheritance tax.

The Buy/Sell Agreement

With both arrangements, a legal agreement between each partner to buy and sell the business share should be completed. These Buy/Sell Agreements come into force on death of a partner and compel the surviving partners to buy the business share back from the deceased's personal representatives and the personal representatives to sell that share back to the surviving partners.

This is the reciprocal agreement required by Revenue, especially for 'Own Life in Trust' cases and each life company will provide copies as a sample which partners can use. If the agreement provided by the life company does not actually meet the exact requirements of the partners, they can have their solicitor complete one which best meets their needs.

Zurich Life's Buy/Sell Agreement is called a 'Double Option Agreement'. Outside the option to buy and sell the business share, the second option is not to trigger the buying and selling of the share.

This might happen in a situation where the deceased partner had a child who was fully qualified to enter into the business and effectively 'step into their parent's shoes'. However, this would need to have the agreement of all parties, the surviving partners and the personal representatives, within a given time frame. If one party disagreed with this, the buy and selling must be enforced.

Steps in setting up Partnership insurance

When advising clients on setting up partnership insurance, the following are some suggestions as to how to approach it.

- Check the firms 'Partnership Agreement' as this will dictate what happens to the firm in the event of one partner dying. If no agreement in place, the partners may need to put one in place to avoid the requirements of the Partnership Act being triggered.
- The partners should have the value of the partnership in mind, which will be divided equally to determine the sum insured on each policy. The policy is there to cover each partners share. If they have to have the value calculated, it is advisable to contact their accountant.
- How are the policies to be set up, Life of Another or Own Life in Trust? The considerations advised earlier should be taken into account, ultimately it is the partners who have the final decision as to how the policies are set up.
- The application form should be filled out with the correct Policy Owners and Lives insured.
- Own Life in Trust, Policy Owner and Life Insured is the same, medical questions answered by the life insured.
- Life of Another, the Policy Owner and Life Insured is different, but again the medical questions are answered by the life insured.
- Ensure that all the correct documentation accompanies the application form, outlined in the table below.

Life of Another	Own Life in Trust
Application Form	Application Form
Financial Questionnaire	Financial Questionnaire
Double Option Agreement (Life of Another)	Double Option Agreement (Own Life in Trust)
	Partnership Trust Form

All of the required forms are available for download on zurichbroker.ie, under the dedicated Business Insurance Section.

Type of policy to be used

For Partnership Insurance, the policy used is Zurich Life's Guaranteed Term Protection Plan and would be set up on a single life basis.

In conclusion

Having Partnership Insurance in place makes for sound business sense as it ensures the continued operation of a firm, in the event of a partner dying within that firm, and provides the funds available to compensate the deceased's personal representatives.

This publication has been prepared for general guidance on matters of interest only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.

Need Further Information?

If you have further questions on any aspect of this briefing, please contact the **TechTalk Team**

01 209 2020

techsupport@zurich.com

Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, A94 X9Y3, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurich.ie

The information contained herein is based on Zurich Life's understanding of current Revenue practice as at June 2025 and may change in the future.

GR: 9587 Print Ref: ZL LSA 9587 0625