

KEYMAN INSURANCE

LIC has specifically designed Keyman Insurance Scheme for Public & Private Companies, who are having technically qualified personals and who contribute substantially for the building up/ growth of the company, as well as increasing the profit ratio.

The object of Keyman Insurance is to indemnify the business firm from the loss of earnings likely to result from the death of an important employee.

The immediate replacement of the keyman may not be possible. It may take a long time and the cost incurred to fill the void created by the demise of keyman may be very heavy.

The amount of Keyman Insurance can be estimated to be the monetary value of the likely setback to the profits of the organization due to the demise of the keyman.

The average turnover of the firm opting for Keyman Insurance for preceding 3 years must be more than equal to 3 crores (**Cir. Actl./1834/4 dated 13.11.2002**)

Maximum Allowable Sum Assured under Keyman Insurance

Public Ltd. Cos.

- (i) 10 times the Keyman's last 3 years Average Annual Income plus perks. The notional value of the perks may be taken as 30% of the gross annual salary or prescribed by the company.
- (ii) Two times of the average gross profit of the company for the last 3 years
- (iii) Five times of the average net profit of the company for the last three years or Three times of the average 3 years Gross Profit whichever is lower. (Note: Where higher amount of depreciation is charge to profit and loss a/c for availing income tax benefit, a part of the excess depreciation can be added to the net profits of the company for calculating maximum Sum Assured allowable under Keyman)

Private Limited Cos.

- (i) Where No. of shareholders or employees equal to or more than 5 but less than 10, then max. 2 times of average of 3 years Net Profit Insurance is permissible.
- (ii) Where No. of shareholders or employees equal to 10 or more - They are to be treated at par with Public Ltd. Companies
- (iii) Recently established company where audited Profit and Loss Accounts are not available.
 - a. 2 years audited accounts available - Max. SA permissible is 2 times Net Profit.

- b. 1 year audited accounts available - Max. SA permissible is equal to Net Profit.

Partnership Firm

1. Average turnover of the firm for preceding three years must be at least 3.00 crores.
2. Maximum Sum Assured will be limited to share capital of the keyman plus proportionate amount of goodwill. Total Goodwill of the firm will be total of last three years' net profit.

Restrictions on Shareholdings

Keyman - Not more than 51%Share

Keyman + Spouse + Minor Children - Not more than 70%share

Requirements for Keyman Insurance

1. Proposal form no. 340 and usual medical requirements
2. Copy of Memorandum and Articles of Association.
3. Copies of Audited Balance Sheet and Profit & Loss Account for preceding 3 years
4. Certified True copy of board resolution passed in the meeting of board of directors giving therein a) Sum Assured (b) Plan & Term (c) Name and signature of the person who will complete the proposal papers. (d) Use of seal of company.
5. Keyman Insurance Questionnaire in the format signed by the authorized person.
6. Copies of I.T. Returns of the company for the preceding 3 years.
7. Consent for endorsement regarding Absolute assignment to be placed on the policy.
8. Keyman's last 3 years Income Tax Returns

Requirements for Keyman Insurance under partnership firm

3. Proposal form no. 340 and usual medical requirements
4. Copy of Partnership deed duly attested by the partner authorized to sign Insurance proposal along with a copy of Supplementary Partnership deed.
5. Copies of Audited Balance Sheet and Profit & Loss A/cs for the last three years containing schedule of partner's capital A/cs
6. Copies of I.T. Returns of the company for the preceding 3 years
7. Letter of Authority in favour of partner signing the proposal

Restrictions

1. Company engaged in trading cannot go for keyman Insurance
2. Keyman insurance is not allowed for proprietary firms

3. Plans 164 and 177 are only allowed
4. No Supplementary benefits (like DAB/ EPDB/ Term-rider etc.) are allowed under Keyman Insurance.
5. Nomination is not allowed unless and until the policy is assigned absolutely in favour of the Life Assured himself.
6. The Keyman Insurance policy shall not be allowed to be assigned to anyone except the Life Assured himself absolutely or to LIC Of India for loan under the policy.
7. Maximum age at entry is 65 years and maximum maturity age is 75 years under Keyman Insurance.

Income Tax Rebates

1. Section 37 (1) of I.T. Act, 1961 provides that any expenditure made wholly and exclusively for the purpose of the business or profession shall be allowed as a deduction in the computation of income from the business or profession. Premiums paid under Keyman Insurance are allowed as business expenses in terms of Sec. 37 (1)
2. The proceeds of the policy in the hands of the concern will be treated as business income and will be taxed under the head "Profits & Gains of business or profession" under Section 28 of the I.T.
3. In case of assignment of the policy in favour of the life assured (when no employer - employee relations exists), the surrender value available under the policy at that juncture (i.e. on the date of assignment) will be treated as "Income from other sources" in the hands of the assignee and will be taxed u/s 17 (2) (v) in his/ her returns of that year.
4. After assignment of Key-man policy to the life assured he/ she becomes the sole owner of the policy and hence maturity or death benefit available under this policy becomes totally free from income tax u/s 10 (10-D) since the proceeds are now payable to an individual and not the employer.