

Business Debt Protection

Build your business, while we protect your future



HEALTHIER, LONGER,
BETTER LIVES

Nothing can cripple, or even sink, a business faster than default action on a commercial loan, or demand under a loan guarantee. In many cases, the consequences are far reaching and can impact not only the business entity but also its principals, their private assets, family members, shareholders, directors and other creditors.

Business debt protection is designed to provide funds to help pay for business loans in the event of a business owner passing away or suffering a serious disability. It's a risk that every size and type of business should consider protecting against.

Why consider business debt protection?

As a business owner you may be personally liable for loans and expenses incurred by the business. This happens if you secure a business loan with personal assets, usually your family home.

Until you repay the business loan your personal assets are at risk. Should you die or become disabled, these personal assets could be placed at risk by the bank or lender requesting full repayment of the loan. This would place considerable strain not only on the business, but also your family especially if you're a guarantor.

How can debt protection help?

Debt Protection insurance would provide the funds to repay any existing business debt and helps minimise the impact to your business operations. This reduces the risk of your personal assets like your family home being sold to pay for business debts and expenses especially if you are a guarantor.

Here's how the funds can be used to keep your business going:

- Repaying outstanding business debt
- Reducing the risk of your personal assets being sold to cover business debt
- Continue the business operations after the death of a partner or guarantor

Who owns the policy?

Normally, the policy will be owned by either the business or the guarantor, although a trustee could act as the policy owner if a business owner wants to ensure that policy proceeds are applied to a specific purpose.

Are payouts taxable?

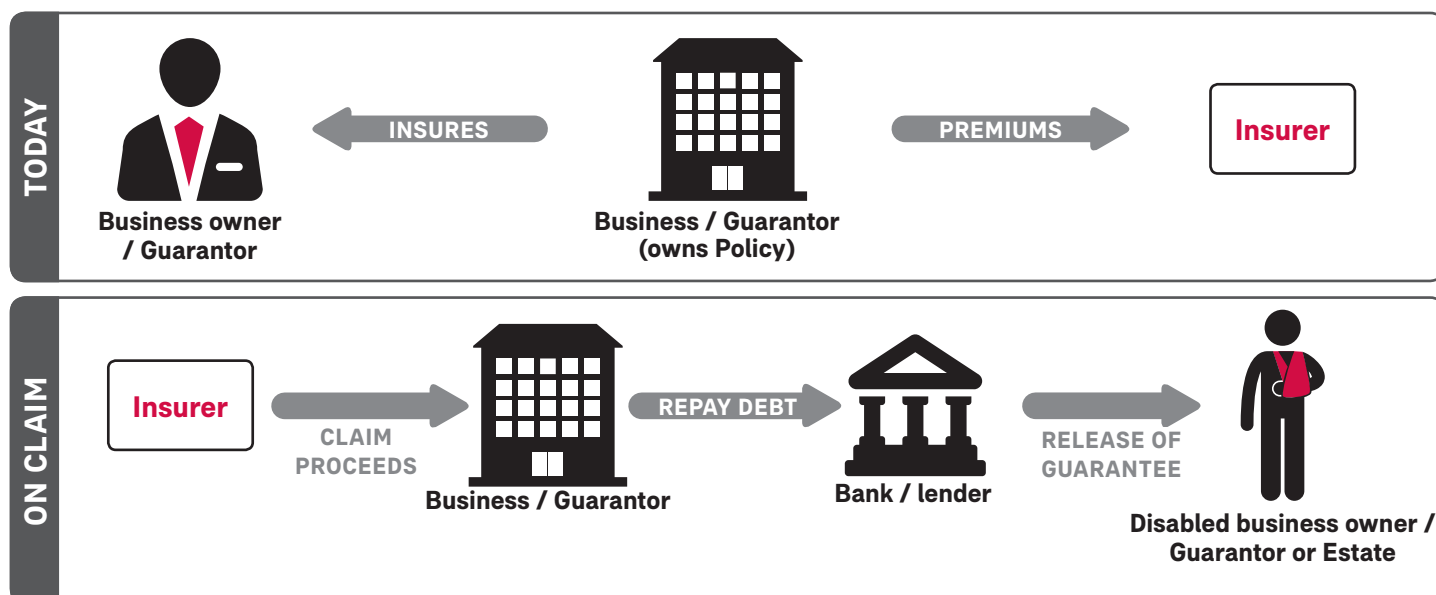
The policy ownership structure may affect taxation treatment of premiums and eventual proceeds so make sure you discuss this with your adviser carefully. Here is a general guide to consider if your policy is business owned or guarantor owned:

- Premiums are not deductible
- No income tax payable on proceeds on death
- Capital Gains Tax (CGT) may be payable on proceeds from a Total and Permanent Disablement (TPD) or Trauma policy. For a guarantor owned policy, CGT on TPD or Trauma proceeds will depend on who is the life insured.

How much business debt protection insurance do I need?

This will vary for each business and depend greatly on the structure of any business loans or finance. If the loan is 'joint and several' then each owner is responsible for 100% of the loan meaning each partner is responsible for the debt until the loan is repaid in full. In such cases each owner should consider being insured for up to 100% of the debt.

If the loan is 'several' and each business owner is liable for only a portion of the debt then they only need to be insured for their portion.



Case Study – Saving the café business

Partners in a small café for 5 years, Sally and Jeff thought it was time to take their business up a notch. The café was successful enough allowing them to borrow \$150,000 for some much needed renovations. The business loan was joint and several which meant both of them would be responsible for the full amount of the debt which was also secured against both of their homes.

A year after the loan went through and renovations had begun, Sally died suddenly of a heart attack, leaving Jeff with the responsibility to repay the business loan in full.

Jeff struggled to make ends meet for the next six months after Sally's death until the Café was on the verge of bankruptcy. At the same time, the bank was requesting final payments for their loan.

To avoid having his house taken by the bank, Sally's husband Frank had no choice but to pay for Sally's share of the loan by using his own savings and selling his own personal assets.

Business Debt Protection may have solved the financial strain left to Frank if Sally and Jeff had a plan in place to protect their business, properties and loved ones.

By insuring each other for the amount of the loan, \$150,000 would have been paid out on Sally's death, covering the bank loan and avoiding the financial situation Frank was left to deal with.

Speak to your financial adviser to find out how Business Insurance can help protect your business.