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IRAS e-Tax Guide

Deductibility of "Keyman" Insurance Premiums
(Second Edition)

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Deductibility of "keyman" insurance premiums

1 Aim

1.1 This e-Tax guide provides guidelines on the deductibility of "keyman" insurance premiums.

1.2 It is relevant to businesses that incur insurance premiums to insure against loss of profits from the demise or disability of a "keyman".

2 At a glance

2.1 Premiums incurred on a "keyman" insurance policy is deductible if all of the following conditions are met:

(a) The purpose of the policy is to insure the business against loss of profits arising from the death or disability of a "keyman".

(b) The capital sum insured is directly related to the extent of the annual profits directly attributable to the services of the "keyman".

(c) The insurance policy remains the property of the business, and there must not be any assignment of the benefits under the policy to the insured or the insured's family.

(d) The insurance policy does not provide for a cash surrender or investment value.

(e) The loss of the "keyman" does not affect the business' entire profit-making structure.

3 Glossary

3.1 Businesses

Businesses include companies, sole-proprietorships and partnerships.

3.2 “Keyman”

This refers to a key personnel of the business who possesses special qualifications and experience that are of irreplaceable value to the business. In this context, special qualifications is not limited to academic and professional qualifications, but include other abilities such as personal connections, business acumen etc. The key requirement is to demonstrate that these qualifications are pivotal in bringing in profits for the business.

The “keyman” is, thus, someone who has the prime responsibility for bringing in the profits of the business and his or her death or disability would result in the business suffering a significant loss of profits.

3.3 “Keyman” insurance premiums

These are incurred on an insurance policy taken up by a business to insure itself against the loss of profits arising from the demise or disability of a “keyman”. The policy may provide both death and disability benefits, or just covers either one.

4 Background

4.1 Section 14 of the Income Tax Act 1947 allows deduction only for expenses that are wholly and exclusively incurred in the production of income. Section 15 further provides, among other things, that expenses that are capital in nature are not allowed a deduction.

4.2 Generally, businesses can claim deductions on premiums incurred on an insurance policy where an employee or a nominee of the employee is the intended beneficiary of the policy, either because the employee is the named beneficiary or there is a contractual obligation for the employer to pass the payout to the employee or the employee’s nominee. This is considered as a provision of employment benefits which constitutes part of the staff costs in carrying on a business.

4.3 Conversely, if the beneficiary of the policy is the business, the premiums incurred would not be deductible because the expense is not incurred in the production of income but rather to acquire a capital asset, i.e. the insurance policy.

5 “Keyman” insurance premiums

5.1 There are exceptions to the principle stated in paragraph 4.3.[1] Premiums incurred on a “keyman” insurance policy is deductible for income tax purposes although the beneficiary of the policy is the business if all of the following conditions are met:

(a) The purpose of the policy is to insure the business against loss of profits arising from the death or disability of a “keyman”.

This is on the basis that the “keyman” is someone who has the prime responsibility for the profitability of the business. Hence, the premiums in providing protection against loss of profits from the death or disability of the “keyman” are wholly and exclusively incurred in producing the income of the business or trade.

(b) The capital sum insured is directly related to the extent of the annual profits directly attributable to the services of the “keyman”. For this, reference is made to the responsibilities of the “keyman” in the operations of the business. The responsibility could be prime, shared, or contributory.

[1] Besides ‘keyman” insurance premiums, with effect from the year of assessment 2019, premiums incurred on group insurance policies where the employers are the beneficiaries and there are no contractual obligations to pass the payouts to employees or their family members, are regarded as staff costs. The change arose from feedback that such policies were purchased to provide a staff benefit and that the employers were named as beneficiaries only for administrative convenience. Accordingly, premiums on these policies will be deductible for income tax purposes and any payouts made under these policies will be taxable in the hands of the employers.

Usually, the capital sum assured is limited by the amount of profits attributable to the “keyman” in his or her capacity as the one having the prime responsibility for the profitability of the business. Hence, in cases where the capital sum assured exceeds the annual profits of the business, the premiums will not be deductible as they are considered as not wholly and exclusively incurred in the production of income.

(c) The insurance policy remains the property of the business, and there must not be any assignment of the benefits under the policy to the insured or the insured’s family.

Tax deductions on the premiums may be denied if the facts show that the benefit of the policy accrues to the “keyman” in his or her personal capacity. This is because the premiums paid under such circumstances will not be wholly and exclusively incurred in the production of income. This may happen in cases where the business is substantially owned by the "keyman" whether on his or her own, or jointly with relatives. For example, where the “keyman” is the sole proprietor of a business or where the “keyman” owns a substantial share of a company together with relatives.

Whether the benefits of the insurance policy has accrued to the “keyman” in his or her personal capacity is determined based on the facts of each case.

(d) The insurance policy does not provide for a cash surrender or investment value.

Where the policy provides for a cash surrender value or an investment value, the premiums would not be considered as incurred wholly and exclusively to protect against the loss of profits. This is because the investment payout under the policy will be made to the business even if the event which the insurance coverage is taken for does not occur (i.e., the death or disability of the “keyman”). Therefore, the premiums of such policies do not qualify for tax deduction, regardless of the type of insurance such a policy is classified under (e.g. life insurance, endowment insurance, crisis cover plus, group personal insurance, etc.).

(e) The loss of the “keyman” does not affect the business’ entire profit-making structure.

Where the insured keyman’s death or disability affects the business’ entire profit-making structure to the extent that the business can no longer be carried on, then the premiums are clearly in respect of the capital structure of the business and not just for the loss of profits. Hence, they are not deductible.

An individual sole-proprietor will be denied a tax deduction if the “keyman” insurance is taken up on his or her own life. This is because the sole-proprietorship business is not a separate legal entity from the sole-proprietor and thus, the death or disability of the sole proprietor will affect the entire profit-making structure of the business. However, the sole-proprietor will be entitled to tax deductions if the “keyman” insurance is taken up on his or her employee provided that all other conditions are met.

6 Recoveries made under “keyman” insurance policies

6.1 Where the premiums paid on a “keyman” insurance policy qualify for deduction, any recovery made under the policy will constitute a trading receipt and be brought to tax.

7 Administrative procedure

7.1 Businesses may claim deductions on “keyman” insurance premiums in their income tax returns if they meet the above conditions. The basis for regarding the insured person as a “keyman” of the business should be stated clearly in the tax computation. While there is no need to furnish any supporting documents with the tax returns, businesses should retain these documents and provide them to IRAS upon request.

8 Contact information

8.1 If you have any enquiries or need clarification on this e-Tax Guide, please call:

a. 1800-356 8622 (Companies)
b. 1800-356 8300 (Sole-proprietorships and partnerships)

9 Updates and amendments

	Date of amendment	Amendments made
1	29 Aug 2023	The previous e-Tax Guide published on 29 Jun 2012 is updated with the following changes: • Footnote 1 is inserted to incorporate change to the tax treatment of group insurance policies where employers are the beneficiaries of the policies and there are no contractual obligations to pass the payout to employees; and • Editorial changes to various paragraphs.