Business insurance strategies

Treat beneficiaries equitably

If you have a family business, life insurance can provide additional funds to 'equalise' your estate and ensure your beneficiaries are treated equitably.

How does the strategy work?

When planning the distribution of their wealth, some parents want to leave the family business to one or more of their children.

But problems could arise if you cater for certain children in this way and your other children feel they have not been treated fairly.

Your Will could be contested and, if the challenge is successful, the business or other assets may need to be sold to distribute the proceeds, often with an accompanying Capital Gains Tax (CGT) bill.

To prevent family arguments and reduce the risk of your Will being challenged, you could consider taking out an appropriate amount of Life insurance cover.

In the event of your death:

- the farm or family business could be passed on to one or more of your children, and
- the proceeds from the Life insurance policy could be used to provide an asset of equivalent value to your other children.

Because the law can vary in each state, you should seek professional legal advice before using this strategy.

The taxation consequences of estate planning are complicated and it is recommended that you also seek professional advice from a registered tax agent.

You should ask your registered tax agent to value the farm or family business and determine how much CGT would be payable if the asset was to be sold by the beneficiaries who inherit it.

This will help you determine how much Life insurance cover you should take out to equalise your estate and treat your beneficiaries equitably.

Other key considerations

- There are a number of ways to ensure the Life insurance proceeds are received by your intended beneficiaries. Some of these include having the intended beneficiary as the policy owner, nominating them as a beneficiary of the policy or distributing the money via your Will. Each alternative may have different implications which you should consider before choosing a particular option.
- To ensure your wishes are carried out upon your death, you should consider your entire estate planning position, including which assets will (and won't) be dealt with by your Will. The best way to do this is to seek professional estate planning advice.

Seek advice

A financial adviser can help you assess all the issues that need to be considered and determine whether using insurance to equalise your estate suits your needs and circumstances.

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Case study

Ted, a third generation farmer and widower has worked on the family farm his whole life and intends for his son, Stephen, to take ownership when he dies.

The farm is worth $1.2 million and the net value is $950,000 (after allowing for CGT that would be payable if the asset was sold).

He also has two adult daughters (Carol and Lauren) who he would like to share equally in his wealth in the event of his death. But the problem he faces is he doesn't have any other significant assets he could pass on to them to ensure they are treated fairly.

To achieve his estate planning objectives, Ted decides to speak to a financial adviser.

After assessing his goals and financial situation, his adviser recommends he take out $1.9 million in Life insurance and make arrangements so that the benefit is split equally between Carol and Lauren.

By using this strategy, Ted ensures that Carol and Lauren would receive $950,000 each and all three children would receive an asset of equivalent value.

Protect your business ownership

If you are in business with other people, you may also want to use insurance to fund a Buy Sell agreement.

This is a legal contract between business owners that can facilitate the orderly transfer of ownership in the event that an owner dies or becomes disabled.

To find out more, ask your adviser for a copy of our '**Protect your business ownership**' flyer.

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