Business insurance strategies

Meet business expenses

If you're a small business owner, business expenses insurance can enable you to cover eligible business overheads if you are unable to work due to illness or injury.

How does the strategy work?

You may already be aware that income protection insurance can replace up to 75% of your pre-tax income if you are unable to work due to illness or injury.

But if you are a small business owner[1], it's also important to protect the very thing that generates your income – your business.

By taking out business expenses insurance, you can cover 100% of your share of eligible business overheads, should an illness or injury prevent you from working.

This could help keep your business afloat and ensure that, in the worst case scenario, there is still a business to sell should the need arise.

Expenses that can be covered typically include office rent, most loan payments, equipment or vehicle leasing costs and utility bills such as electricity, heating and water.

The maximum benefit payment period is usually limited to 12 months. After this period, you can reasonably determine (with guidance from your doctor) whether you will be able to return to work.

You can also choose a waiting period before the policy will start reimbursing your business expenses – typically 14 days or a month.

Other key considerations

- Premiums for business expenses insurance are generally tax-deductible and benefits received will generally be assessable as income, to either the business or the business owner. You should get advice from a registered tax agent relevant to your circumstances.
- Insurance contracts differ, so check the policy document to ensure you understand exactly what the business expenses insurance covers, including what are defined as eligible business expenses.

Seek advice

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

[1] Includes people who are self-employed, in a small partnership or operate their small business through a company.

Meet business expenses

Case study

Tony and his business partner Andrew run a successful veterinary practice. They each generate a pre-tax income of $20,000 per month and are jointly responsible for meeting the total business expenses of $16,000 per month (or $8,000 each). This leaves them $12,000 each to draw as income every month.

They have both taken out income protection insurance to protect 75% of their respective incomes. Tony has also taken out business expenses insurance for $8,000 a month, which represents his share of the practice's business overheads.

The following table outlines what could potentially happen if either Andrew or Tony became disabled.

Andrew's income protection policy would provide a monthly benefit of $9,000, which would represent 75% of his income, net of expenses, but before tax. However, because he doesn't have business expenses insurance, he would have to fund the business expenses out of his own pocket – potentially from his income protection policy. As a result, he would be left with $1,000 each month, which won't be enough to cover his personal expenses, medical expenses and tax liability.

Conversely, Tony, who also insured 100% of his share of the practice's business expenses, would not need to use any of his income protection benefit (or any of his personal savings) to meet his ongoing business expenses.

	Andrew (per month)	**Tony** (per month)
Income protection insurance benefit	$9,000	$9,000
Business expenses insurance benefit	Nil	$8,000
Total insurance benefits	$9,000	$17,000
Less share of ongoing business expenses	($8,000)	($8,000)
Pre-tax income (after business expenses)	$1,000	$9,000

A135226-1117