Chapter 12 – Insurance & Tax

Risk management → a planned approach to minimising the risks a business/household is exposed to. We need to identify the risks, their likely effect on the business/household, and then putting in place a strategy* to minimise them occurring and when they do, to resolve them as quickly as possible.

*Strategies include; fireproof materials, security devices/cameras, copies of valuable documents, health and safety programmes and contingency plans.

Insurance → a contract whereby a person (the insured) pays a fee (a premium) to an insurance company (the insurer) in return for a promise to compensate the insured in the event of a financial loss occurring.

How to become insured:

1. **Contact insurance company**:
    - Insurance brokers work independently of insurance company and shop around
    - Insurance agents work and sell for a particular company
2. **Fill in a proposal form** → application form completed by person applying for insurance cover. The exposure unit is the object being insured.

Chapter 12 – Insurance & Tax

3. **Risk is assessed and a premium is calculated on the basis of:**

    - Level of risk involved increases premium
    - Value of exposure unit
    - Loadings → extra charges added to motor premiums to take account of the different characteristics, e.g. age of driver.
    - No claims bonus → discount offered on premiums to customers who made no claims in the previous year
    - Profit targets set by the company

4. **Policy is issued**

    - Cover note = temp. doc issued by company as proof of existence of contract until the contract is fully ready
    - Insurance policy sets out full contract incl. Items covered, value of compensation available and conditions.

5. **Make a claim if event occurs** → fill in insurance claim form must be completed describing what happened and stating the amount of loss suffered (the company may send out an assessor to inspect the loss)

Chapter 12 – Insurance & Tax

Five Principles of Insurance:

1. **Insurable Interest** → the person seeking insurance must benefit from the continued existence of the item being insured or suffer from its loss. (Proximal cause means you can only claim compensation on something for which you have actually insured).

2. **Utmost Good Faith** → the insured must give truthful information and disclose all relevant/material facts when applying for insurance, even if it may increase insurance premium.

3. **Indemnity** → The insurer agrees to compensate for the actual financial loss suffered. You cannot profit from having insurance and will only be compensated for the actual financial loss suffered. If you have underinsured an item, the average clause applies:

   $$\frac{\text{Amount insured}}{\text{Actual Value}} \times \text{Loss suffered}$$

4. **Contribution** → where two or more insurers are involved they will divide the cost of the claim proportionally between them.

   <u>Amount insured with one insurer</u> x Loss suffered

Chapter 12 – Insurance & Tax

Total amount insured

5. **Subrogation** → when the insurers pay out full compensation for the item insured then they are entitled to take possession of the item involved and sue a third party who caused the loss to occur.

What affects the insurance premium?

1. Risk - loadings, experience
2. Value of the Item
3. Claims - how many claims they receive and how much compensation they have to pay out
4. Tax charged by the Government

Chapter 12 – Insurance & Tax

Types of Insurance a Business should have:

- **Motor insurance:**
  - Third party motor insurance (covers damage caused by driver to other people and property)
  - Third party, fire and theft (above plus loss or damage to your own car through fire and theft)
  - Comprehensive (above plus compensation for any accidental damage that happens to own vehicle)

- **Fidelity guarantee** (covers dishonesty or fraud by employee against the firm)

- **PRSI** (compulsory payment to state for unemployment payments, pensions, maternity benefits etc)

- **Public liability** (if member of public is injured in accident considered fault of the business)

- **Product liability** (against claims of harm or loss suffered through use of a firm's products)

Chapter 12 – Insurance & Tax

- **Employer's liability** (claims arising from accidents, injuries and illnesses suffered by employees as a result of their work)

- **Consequential loss** (financial compensation for loss of income in the event of major risk occurring)

Types of Insurance a Household should have:

- **House** (building and contents in event of a range of events)

- **Motor** (compulsory as before)

- **Mortgage protection insurance** (required by all lenders per mortgage approval)

- **Health Insurance** (covers cost of private health care in event of serious illness)

- **Permanent health** (pays % of salary if you have to give up work due to injury or illness)

Chapter 12 – Insurance & Tax

- **Personal accident insurance** (compensation for serious accident)

- **Life assurance** (compensates named beneficiary in event of death of insured)
  - Whole-life assurance → annual premium to be paid for rest of life with compensation paid out on death.
  - Endowment life assurance → Pay out when you reach a certain age or on death prior to that age
  - Term-life insurance → for an agreed period of time, no payment unless death occurs

Importance of Insurance for Business:

- Business survival is protected and can be rebuilt if need be
- Improves cashflow - regular small payments, rather than a huge amount unexpectedly. Can save money also.
- Risk Management

Importance of Insurance for Household:

- Greater financial security (protection from fire, redundancy etc)
- Greater peace of mind
- Savings can be enhanced (life assurance policies that guarantee payment)

Chapter 12 – Insurance & Tax

How can an Insurance Company Settle a Claim?

- Cash compensation
- Replacement of the asset
- Repair or reinstatement

Taxation

Reasons for Tax

1. Government Revenue
2. Redistribute Wealth
3. Discourage Consumption

What taxes are paid by a business? (the revenue commissioners collects taxes on behalf of the government)

- Self Assessment Tax - sole traders and partnerships pay on their profits.
- Corporation tax → tax on all profits earned by companies and co-ops
- VAT → % added to price of certain goods and services
- Capital gains tax → paid on profits earned from sale/disposal of a business asset such as premises

Chapter 12 – Insurance & Tax

- Commercial rates → taxes levied by local authorities on property used for commercial purposes to help finance local government
- Customs duties → taxies levied on imports coming in from outside the EU
- Employers PRSI → levied on firms for every person they employ

How does taxation affect business?

- Lower profits
- Higher costs
- Higher prices
- Human resources (as taxation can reduce motivation and increase want for pay rises)

What taxes are paid by households?

- PAYE
- PRSI
- USC
- VAT
- Capital Gains Tax
- Capital Acquisition Tax - tax paid on value of a gift or inheritance
- DIRT - tax on interest on savings

Chapter 12 – Insurance & Tax

- Motor Tax - determined by CO_2 emissions

Definitions you MUST know

- **Tax Rates** - % of income that you must pay to the Government, depends on your income. There are different tax brackets. 20% tax on earning up to 34,580 and 41% on everything after that.

- **Tax credit** - a reduction in the amount of PAYE an employee pays. It is based on their personal circumstances (eg. single, married, if you have dependents)

- **Form P12A** - This is the form that employees must fill out when they start working for the very first time. They send it to the Revenue Commissioners so they can work out their tax credits and the rate of tax to be paid.

- **Form P60** - employer gives this to the employee at the end of each tax year. The form shows gross pay earned and all tax paid (PAYE, PRSI, USC) in that current tax year. This form is used when claiming social welfare benefits or to give to the next employer.

Chapter 12 – Insurance & Tax

- **Form P21** - The Revenue Commissioners give this to the employee at the end of the tax year. It shows the difference between how much tax they paid and how much they actually owe for that year. It is a balancing statement, showing if the employee overpaid or underpaid tax.

- **Form P45** - employer gives to the employee when the employee leaves the business. The form shows gross pay earned and all tax paid (PAYE, PRSI, USC) in that current tax year. This form is used when claiming tax back from the Revenue Commissioners and as evidence of their PRSI contributions.