**SECTION 37(1) OF THE INCOME-TAX ACT, 1961 - BUSINESS EXPENDITURE - ALLOWABILITY OF - ADMISSIBILITY OF EXPENDITURE INCURRED BY A FIRM ON KEYMAN INSURANCE POLICY IN CASE OF A PARTNER**

**CIRCULAR NO.38/2016 [F.NO.279/MISC./140/2015-ITJ]**, **DATED 22-11-2016**

The issue relating to admissibility of expenditure incurred by a firm on Keyman Insurance Policy premium in the case of a partner has been a contentious one.

**2.** CBDT [Circular no. 762/1998 dated 18.02.1998](fileopen.aspx?id=104010000000002120&source=link) clarifies that the premium paid on the Keyman Insurance Policy is allowable as business expenditure. However, in case of such expenditure incurred on a partner of a firm, the general approach of the assessing officers was to treat the expenditure as not incurred for the purpose of business and disallow the same.

**3.** High Courts have upheld the admissibility of the expenditure incurred by the firm in the case of the partners. Taking into account the Explanation to Clause (10D) of section 10 of the Income-tax Act, 1961 and the CBDT [Circular no. 762 dated 18.02.1998](fileopen.aspx?id=104010000000002120&source=link), Courts have held that a Keyman Insurance Policy is not confined to a policy taken for an employee but also extends to an insurance policy taken with respect to the life of another person who is connected in any manner whatsoever with the business of the subscriber (assessee).

**4.** The High Court of Punjab and Haryana in the case of M/s. Ramesh Steels, ITA No. 437 of 2015, *vide* judgment dated 2-2-2016 [[2016] 75 taxmann.com 257 (Punj. & Har.)](fileopen.aspx?id=101010000000169328&source=link), reiterating the above view held that, "*the said policy when obtained to secure the life of a partner to safeguard the firm against a disruption of the business is equally for the benefit of the partnership business which may be effected as a result of premature death of a partner. Thus, the premium on the Keyman Insurance Policy of partner of the firm is wholly and exclusively for the purpose of business and is allowable as business expenditure".*

**5.** The above view has been accepted by CBDT and the judgment has not been further contested.

**6.** In view of this, it is a settled position that in case of a firm, premium paid by the firm on the Keyman Insurance Policy of a partner, to safeguard the firm against a disruption of the business, is an admissible expenditure under section 37 of the Act.

**7.** Accordingly, henceforth, on this settled issue, appeals may not be filed by the department and those already filed, may be withdrawn/ not pressed upon.

**8.** The above may be brought to the notice of all concerned.

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