Business protection

Protecting your business

A guide to continuing business following the death or serious illness of an owner or key employee.

If you want to learn more and receive advice tailored to your personal circumstances, please get in touch.

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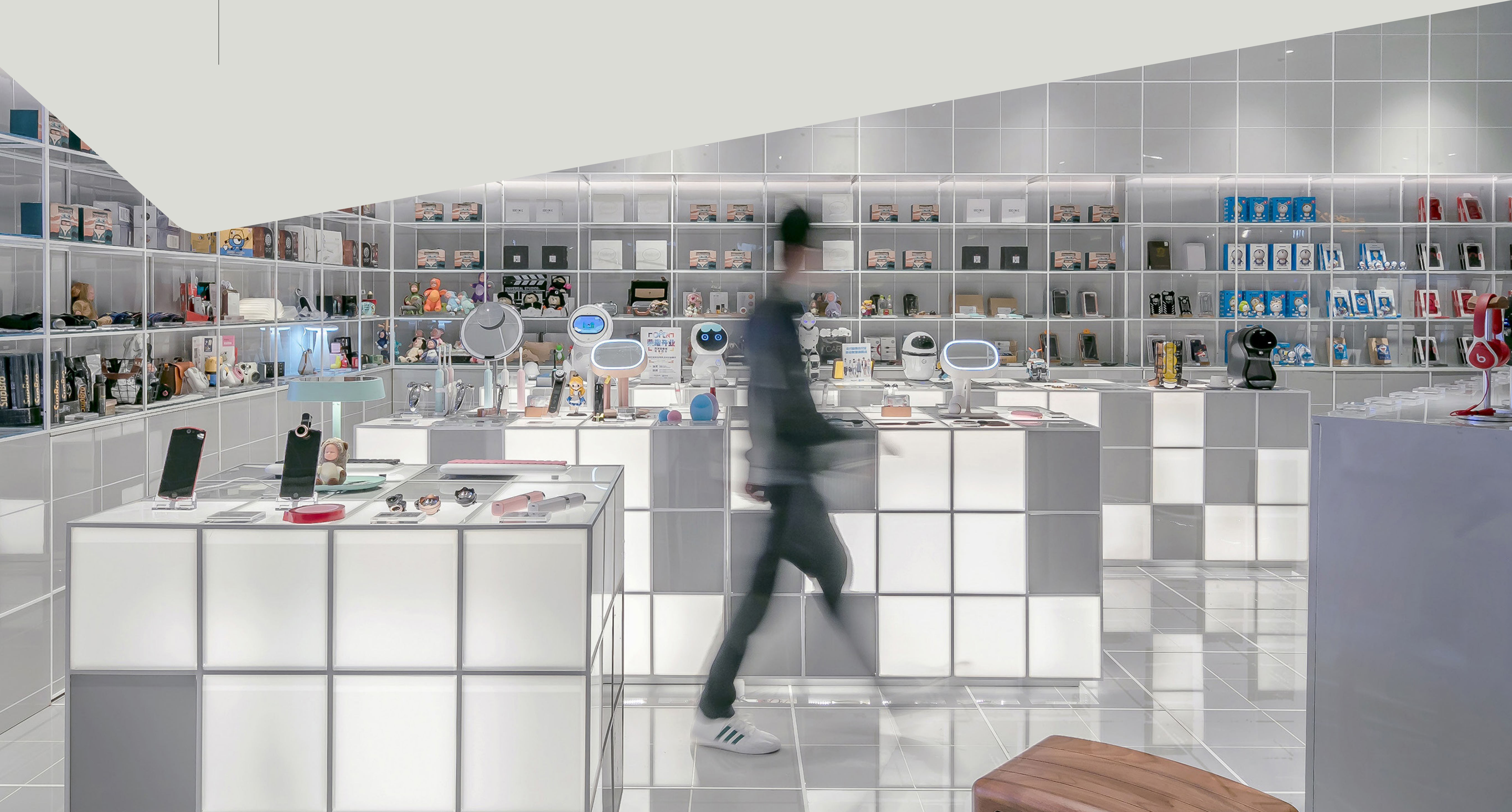

Is your business at risk?

Would your business survive if something happened to you, your co-owners or employees?

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Is your business at risk?

As a business owner, you are critical to the success of your organisation. But if you, or another co-owner were to become seriously ill or die, it could lead to serious problems with the ownership of your business.

- If you’re a sole trader, your business could fold if you were no longer around to run it, which could have a life-changing impact on those left behind.

- The death or serious illness of any key employees could affect the revenue and profitability of your business.

But, with sound planning, many of these issues can be avoided. We can help you protect against these risks - and review the plans you may already have in place to ensure they remain fit for purpose.

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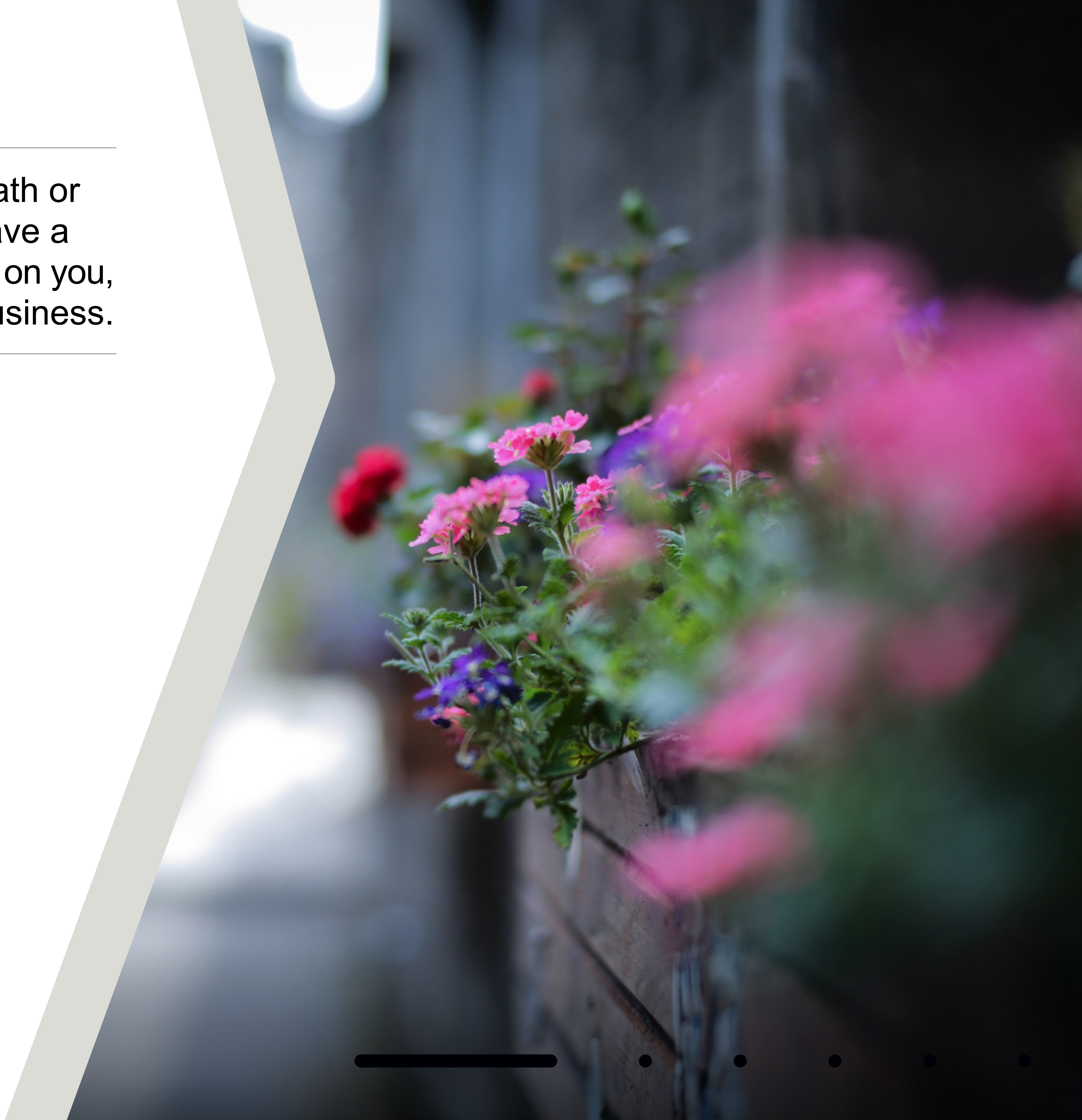
Death of a business owner

A business owner’s death or serious illness could have a serious financial impact on you, your family and your business.



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Death of a business owner

A business owner's death, or serious illness (causing permanent or extended absence), could result in a loss of business revenue.

This, in turn, might lead to:

- Reduced profits (or increased losses) for the business
- Reduced income for the owners and/or their family
- Difficulty in repaying business debts (including those owed to the deceased or ill owner)
- Loss of confidence among suppliers, clients and lenders
- Loss of suppliers, clients and lenders
- Difficulty in meeting ongoing costs
- Increased costs (eg. recruitment)

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How to protect your business

The financial problems that might arise from an owner's death can often be solved through appropriate insurance. This insurance can be payable in a lump sum or as regular payments.

Typically, the business would take out the insurance. However, depending on the type of business you have, careful planning may be needed when it comes to setting up and holding the chosen insurance policies.

The cost of cover will depend on a number of factors including:

- The sum insured
- Terms of the cover
- Age and state of health of the insured

Generally speaking, the premiums paid will not be tax deductible. Lump sums paid under insurance policies on the death or serious illness of the life insured will usually be tax-free.

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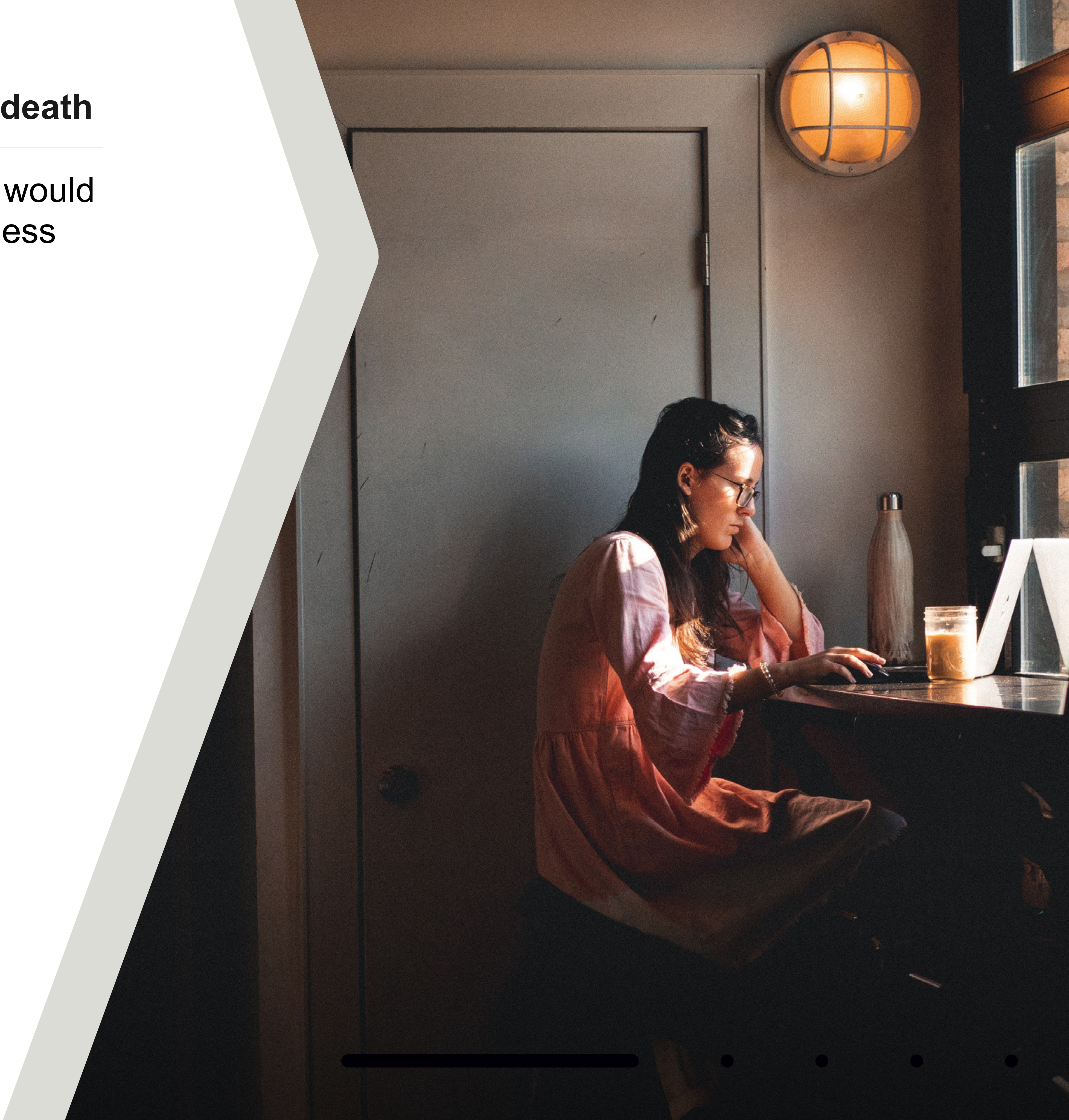
Business ownership challenges caused by death

Have you planned what would happen if you or a business partner were to die?



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How to protect against this

You can control what happens to your share of the business by having life policies in place for each of the business owners. Properly planned and executed, this will provide a tax-free lump sum that allows the owners to purchase the share and continue to run the business. The family of the deceased will receive the proceeds of the sale (*see example overleaf*).

Where the share of a deceased partner might automatically pass to the other partners without payment, life insurance in trust is usually needed to financially compensate the family of the deceased.

If you own your business with others (as a shareholder or partner), you should plan for what would happen to your share of the business if you died unexpectedly.

Without appropriate arrangements in place the future of your business could be determined by inheritance law. In the worst case scenario, this could mean that the surviving co-owners cannot continue to run the business themselves and the deceased's family do not receive financial compensation.

Example

**Black Door Ltd is owned by Claire, Mick and Charlie.
Each of them will have an identical solution.**

1 Claire, Mick and Charlie have each taken out a life insurance policy in trust for their co-owners.

2 They have all entered in to an agreement that specifies the terms on which the business share of a deceased owner would be bought using the proceeds of the policy.

3 Claire dies and her business share passes to her personal representatives or administrators if there is no Will.

4 Mick and Charlie receive the sum assured under Claire's life insurance policy without waiting for probate, and free of Inheritance Tax.

5 Mick and Charlie use the sum to purchase Claire's business share from her personal representatives.

6 The personal representatives pass the sale proceeds to Claire's family, dependants or other people specified in her Will (or, if there is no Will, in accordance with the rules of intestacy).

Serious illness of a business owner

If a serious illness causes an owner's long-term or permanent absence from work, having the correct protection in place can help the business to continue running smoothly.

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Serious illness of a business owner

Depending on the specific circumstances, there may be a need to consider the future ownership of that share in the business.

Each case will be different. For example, the seriousness of the illness, the ability (and desire) of the owner to return to work, and the feelings of the co-owners, will all require consideration.

Having the correct insurance policy will allow funds to be available should the affected business owner choose to sell their share of the business. It could also provide finance to pay the ill owner's income, and cover some of the other financial needs such as revenue replacement, debt repayment or additional expenses.

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Death or serious illness of a key employee

Key employees can have a significant impact on business revenue and profit.

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Death or serious illness of a key employee

Your business may benefit from planning against the loss of a key employee (where their death or serious illness could cause financial damage to your business). It is important to put protection in place to prevent financial damage to your business in the event of death or serious illness to a key employee.

An insurance policy often referred to as Key Person Insurance can be taken out on the life or health of such an employee. This may be appropriate where that individual's knowledge, work, or overall contribution is considered uniquely valuable to the company. It can cover the costs or losses that may be caused by the loss of that person.

Incentivising your key employees

There are additional insurance products you might want to consider offering your key employees as part of their reward package, including:

Income replacement/protection cover – for times when they are absent from work due to long-term sickness.

Family protection insurance, by way of a relevant life policy. Proceeds of the policy would also usually be paid free of Inheritance Tax under a trust to your employee's family.

Sole traders

As a sole trader, your death or serious illness could have disastrous financial consequences for you and your family.

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Sole traders

Appropriate life insurance that pays out on death or serious illness can help you and/or your family replace the money which would no longer be available from the business.

In order to arrive at the right amount of cover, it's essential to carefully plan what you and your family would need. Writing the policy in trust will help ensure funds are paid promptly to the beneficiaries.

Next steps

We hope this guide has given you a broad insight into protecting your business – and those who depend on the income it provides.

To explore the specific options for your circumstances, please get in touch.

We can help you to carry out a protection-gap assessment and to take appropriate action to economically and tax-efficiently close it.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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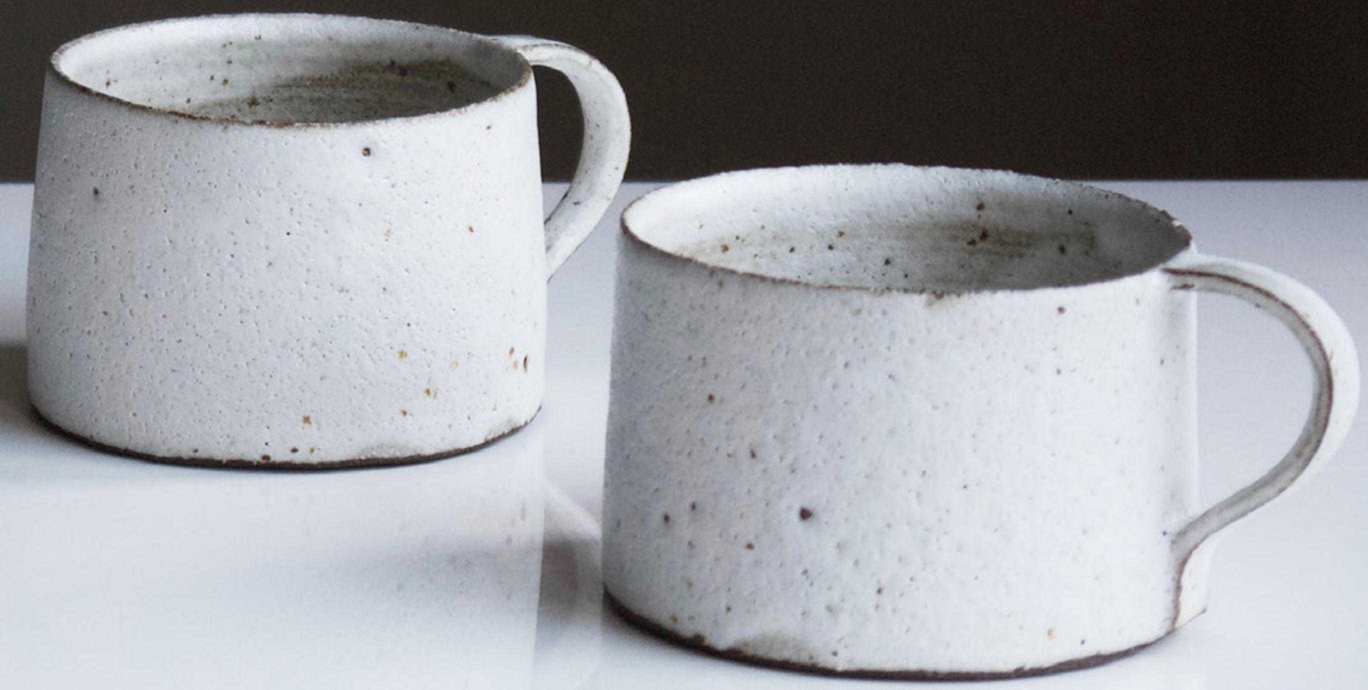

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