Briefing Notes

Mercer & Hole

BUSINESS PROTECTION GUIDANCE

Business protection is an important component in the management of risk within a business.

It is important for all businesses to identify and manage their risks. Business Protection can be a cost effective and tax efficient way to safeguard the future of a business.

Most people who run a business consider insuring its physical assets (buildings and contents, vehicles, etc.) as part of their basic running costs. At the same time many acknowledge that a business' greatest asset is its people. This leads to the conclusion that insuring the key people within an organisation should be given greater consideration.

A business protection policy could help ensure that a business is able to:

- Replace key employees.
- Remain in the ownership and control of the surviving stakeholders.
- Protect its profits.
- Pay its debts.

All businesses are unique and will require different types and levels of protection. However a business can be insured against the unintended consequences of a death or serious illness of a key individual in the following ways:

Key Person Protection

- Protection against the loss of a key employee as a result of death or a serious illness.
- Lump sum payment - could be used to
  - Recruit and/or train a replacement
  - Compensate for the disruption to the business through a drop in sales or fall in profits.
- Without it a business runs the risk of being unable to trade or having to cease trading completely.

Share Protection

- Aims to ensure the remaining shareholders/partners retain control of their business should one of them die or be diagnosed with a serious illness.
- Lump sum payment – could be used to buy the late stakeholder's share of the business.
- The business can then continue without the involvement of the late stakeholder's beneficiaries.
- Deceased's beneficiaries receive an agreed payment, providing financial security.

Business Loan Protection

- Ensures that loans can be repaid if something were to happen to the guarantor.
- Lump sum payment.

Relevant Life Policies

In addition to the above types of cover for a business, a relevant life policy can provide personal cover on a very tax-efficient basis:

- These are single life, stand-alone death-in-service plans.
- Premiums paid by the employer will:
  - Generally be treated as an allowable business expense for tax purposes.
  - Not be treated as a benefit in kind for the employee.
  - Not be assessable on either employer or employee for national insurance purposes.
- Benefits will:
  - Be paid free of income tax.
  - Generally not form part of the employee's estate for inheritance tax purposes.

This Mercer & Hole Insight is a short selection of items extracted from complex legislation. Further specific advice on any matters referred to must be taken at all times. The information is given for general guidance only and publication is without responsibility for loss occasioned to any person acting or refraining from acting as a result of the information given. No part of this publication may be reproduced without the prior permission of Mercer & Hole.