

Article

Does Your Business Have These Key Protections?

When you are running a business, multiple issues are competing for your attention at any given time. You want to ensure your business is profitable, productive, and cost-efficient.

But sometimes the unexpected can occur, throwing your business plans off track. It's worth taking some time to consider where your business might be vulnerable and how to mitigate the risks.

Key Person Cover

What would happen to your business if you, or another essential senior employee, were to die?

We all know that we should have life insurance, but did you know you could arrange life insurance for your business?

Key person insurance works as follows:

- The business pays a regular premium to the insurer. This is an allowable expense provided the policy is 'wholly and exclusively' for the purposes of trade, and not for the benefit of the other shareholders.
- If the insured person dies within the plan term, the business will receive a payout.
- You can also add critical illness cover to the policy.
- The payout is notionally taxable in the hands of the business, although if the money is used for the purposes of trade, the expenses are tax-deductible.
- The money can be used to recruit another key staff member or to allow the company to buy back shares from the deceased person's estate.

Cross Option Agreement

A cross option agreement is a legal document that can be used alongside a key person insurance policy.

This means that if a shareholder dies, the business or other shareholders have the option to purchase their shares from their estate.

This protects the business, as well as providing the deceased person's family with a lump sum, rather than the burden of owning part of a business.

The key word is 'option.' The agreement shows that the parties involved are willing to undertake the transaction, but it is not binding.

Providing the shares are not subject to a sale agreement at the time of death, the deceased person can qualify for Business Relief, protecting their shares from Inheritance Tax. A binding agreement could invalidate this relief.

Life Cover for Employees

The business can also set up life insurance for the benefit of employees' families.

Group life insurance is the traditional method, particularly for larger companies. This provides a lump sum to the deceased person's estate or beneficiaries if they die within the plan term.

The costs are usually competitive on a per-employee basis, and the underwriting process is often simplified. The premiums are tax-deductible for the company, which makes it even more cost-effective. This can provide a valuable benefit as part of an employee's remuneration package.

For directors and senior employees, a relevant life plan might be more appropriate, as it can offer higher levels of cover. These plans are individually underwritten and work in exactly the same way as a personal life insurance policy.

However, the premiums are an allowable business expense, and the benefits are tax-free. To qualify, the plan must meet certain conditions:

- The plan can only provide life cover on a single-life basis.
- The plan term must not exceed age 75.
- The cover amount is limited by a multiple of salary, for example, 15 or 20 times annual earnings. This depends on the insurer's terms.
- The plan must be written into trust, with the company as a trustee.
- The company cannot benefit from the cover.

Income Protection

You can also arrange income protection insurance for your employees. This will provide a regular income if they are unable to work due to illness or disability.

Group schemes usually offer competitive costs and simplified underwriting. The premiums are an allowable business expense.

If the benefits are paid to the company, the money must then be paid to the employee with deduction of tax and National Insurance.

If the benefits are paid directly to the employee, they do not pay tax, but the maximum cover amount is usually a lower proportion of their salary.

Some policies include an additional payout to the employer, which allows the company to recruit and train a replacement while the employee is out of commission.

Directors can also benefit from income protection, either through a group scheme or a standalone policy. This can compensate for reduced earnings or allow your share of the profits to be re-invested in the business while you are unable to work.

Income protection benefits are capped and may be reduced if you have other earnings. Dividends are not always treated in the same way as other earnings, so it's best to check with the insurer:

- a) If dividend income is taken into account when calculating your maximum cover and
- b) If you can continue to receive dividends during a claim without reducing your cover amount.

Private Medical Insurance

Private medical insurance is another benefit that could be valuable for directors and employees. This offers the following advantages:

- It reduces waiting times for medical procedures.
- Most plans offer additional support to improve the health and wellbeing of employees.
- Costs are competitive compared with personal policies.
- Private medical insurance is a desirable perk when recruiting employees.

Power of Attorney

If you become unwell or seriously injured, who will run your business?

A business Power of Attorney allows you to appoint someone to make important decisions for you if you lose capacity.

This not only gives them the authority to act in line with your wishes but also provides access to business bank accounts and other important services. This means that the business can continue to operate in your absence.

Business Will

You should also consider what will happen to your business if you die.

The default option would be for your shares to pass into your estate under the terms of your Will. This could suit you if you intend to pass on a family business, or if the other shareholders are prepared to buy the shares from your estate.

However, this is subject to the terms of the company's Articles and Memorandum, which may impose restrictions on the transfer of shares.

A business Will allows you to direct your representatives not only regarding what happens to your shares, but also how the business should be run after your death, for example, who should take on key responsibilities.

Running a business is never risk-free, but by taking a few simple steps now, you can protect your business if the worst should happen.

Please don't hesitate to contact a member of the team to find out more about business protection.

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e: ganesh@corelliafs.com

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Corellia Financial Services Limited

Arena Offices - 2F02, 100 Berkshire Place Winnersh, RG41 5RD Berkshire **t:** +44 20 3375 1584. **m:** +44 7801 549274.

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