



Protect365

YOUR GUIDE TO
**BUSINESS
PROTECTION**

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AN INTRODUCTION

Business protection insurance can be a bit of a mystery. Our handy guide is designed to give you all the knowledge and understanding you need to make informed decisions about your insurance needs.

Let's be honest, the insurance industry can be a bit of a jungle. There's a lot of information out there and it's not always easy to know what to believe. That's where Protect365 comes in. Our guide to business protection is like a trusty safari guide, leading you through the thick undergrowth of insurance jargon and helping you make sense of it all.

When it comes to business protection, there's a lot at stake. Making the right decisions can mean the difference between success and failure. That's why it's important to have a partner you can trust. Protect365 has the knowledge and expertise to help guide you through the process of getting insured. We've helped countless companies, big and small, find the perfect cover for their needs. And we're not satisfied until you are.

We understand that time is money, and that's why we've created this user-friendly guide to business protection. It's designed to be an easy-to-use reference tool that you can turn to whenever you need it. Whether you're looking for information on key person insurance, shareholder protection, or any other aspect of business protection, we've got you covered.

At Protect365, we're passionate about helping our clients make informed decisions that positively impact their lives. We're not just in the insurance business, we're in the people business. We take pride in our impartiality, and we're committed to providing the best possible outcome for our clients. So whether you're a seasoned business owner or just starting out, our guide to business protection is here to help.



THE RISKS

The risks businesses face due to critical illness and death of key individuals can be significant. According to statistics, around 40% of businesses would cease trading within a year if a key person died or became seriously ill.

01.

Loss of key personnel: If a key director or shareholder were to pass away or become seriously ill, it could have a significant impact on the business's ability to operate effectively. Without adequate protection in place, the business could face financial losses, instability, and even closure in some cases.

02.

Disputes over ownership: Without clear agreements and provisions in place, the death or departure of a shareholder could lead to disputes over ownership and control of the company. This could lead to legal battles and potentially even the dissolution of the business.

03.

Damage to reputation: Key personnel often play an important role in maintaining the company's reputation and relationships with customers, suppliers, and other stakeholders. Losing a key person without a contingency plan in place can damage the business's reputation and relationships.

04.

Financial losses: Without adequate protection in place, the business may be exposed to significant financial losses in the event of the loss of key personnel. These could include costs associated with recruiting and training replacements, lost revenue due to disruption, and legal fees.

05.

Inability to secure funding: If the business is unable to demonstrate that it has adequate protection in place for key personnel, it may be more difficult to secure funding from investors or lenders. This could limit the company's ability to grow and expand.

WHAT IS BUSINESS PROTECTION

Business protection refers to a range of measures that businesses can put in place to mitigate risks associated with the loss of key individuals such as directors, shareholders, and key employees. These measures can include insurance policies such as key person insurance, shareholder protection, and business loan protection.

The consequences of not having business protection in place can be severe. For example, the loss of a key individual could lead to financial instability, reduced productivity, and a loss of reputation.

The costs associated with recruiting and training a replacement, paying off business debts, and maintaining ownership structures can be significant. Without appropriate protection in place, businesses may struggle to overcome these challenges and may even be forced to close down. By putting measures in place to protect against these risks, businesses can help ensure their long-term success and sustainability.

TOP TIP

Using a broker for business protection offers advantages such as access to a wide range of insurance products, valuable advice, and assistance in navigating the complex insurance world. Brokers save businesses time and effort while providing peace of mind by ensuring the right protection is in place for key individuals, represented by an impartial intermediary.

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NOTE

Business Protection is not to be confused with Commercial Insurance that you would have for your premises or public liability/Indemnity

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WHAT'S AVAILABLE

There are several business protection products available to business owners, here's a quick breakdown of the main products available on the market today.

KEY PERSON PROTECTION

01.

is life insurance taken out by a business on the life of a crucial person in the business. It can include critical illness cover. The policy is paid directly to the company or partners to provide a cash injection to the business at a difficult time.

RELEVANT LIFE POLICY (RLP)

02.

Relevant Life Cover allows employers to offer a death-in-service benefit to employees. It's a tax-efficient life insurance policy – paying out a tax-free lump sum on death or diagnosis of a terminal illness.

SHAREHOLDER & PARTNERSHIP PROTECTION

03.

Shareholder and Partnership Protection offers a safety net if a business owner dies. It also covers a diagnosis of a critical illness (like cancer). It means the remaining owners can keep control of their company.

EXECUTIVE INCOME PROTECTION

04.

Executive Income Protection is designed for small and medium businesses to cover the cost of providing sick pay benefits to a key employee.

The policy is arranged and paid for by the employer (the policy owner) on the life of the employee (person insured).

BUSINESS LOAN PROTECTION

05.

Business loan protection insurance will provide funds to repay a loan, commercial mortgage, or a director's loan if one of the business owners dies or suffers a critical illness.

When you make a claim, the sum assured is either paid to the business or directly to the lender if the policy has been assigned.

HOW BUSINESS PROTECTION WORKS

Whilst there are several business protection policies, they essentially are the same product. It's just how they are written, how you calculate the cover and how they're set up within the company that differs.

There's very little difference between personal Life Insurance, Critical Illness and Income Protection policies you would take out to cover your mortgage for example. It's a case of who owns the policy usually the business, who the person is insured and the policy being written into trust that differs.

For example, let's take a look at how a Relevant Life Policy is set up. This is a type of life insurance policy designed for employees of small businesses, particularly those who do not have access to traditional group life insurance policies. This policy allows employers to provide life insurance coverage for their employees, which can be tax-efficient for both the employer and the employee.

RELEVANT LIFE (DEATH IN SERVICE) SET UP	
Owner	Employer
Payer	Employer
Persons Covered	Employee
Trustees	Employer & Employee
Beneficiaries	Employee & their family (typically)

TAKING OUT BUSINESS PROTECTION

Business insurance is an important investment that can protect your company from potential risks and liabilities. There are two main ways to obtain business insurance, going direct or using a broker.

If you choose to go direct, you can research and purchase insurance policies directly from an insurance company. This can be done through their website, over the phone or in person. Going direct can be time-consuming to research and compare policies from different providers and you will have limited options, as well as it being a non advised service can leave you exposed.

Alternatively, you can use an insurance broker, such as Protect365 to help you find the right insurance coverage for your business. Brokers can offer expert advice, help you assess your risks and find policies that meet your needs. They can also handle the paperwork and negotiate with insurance companies on your behalf and will usually do this for free.

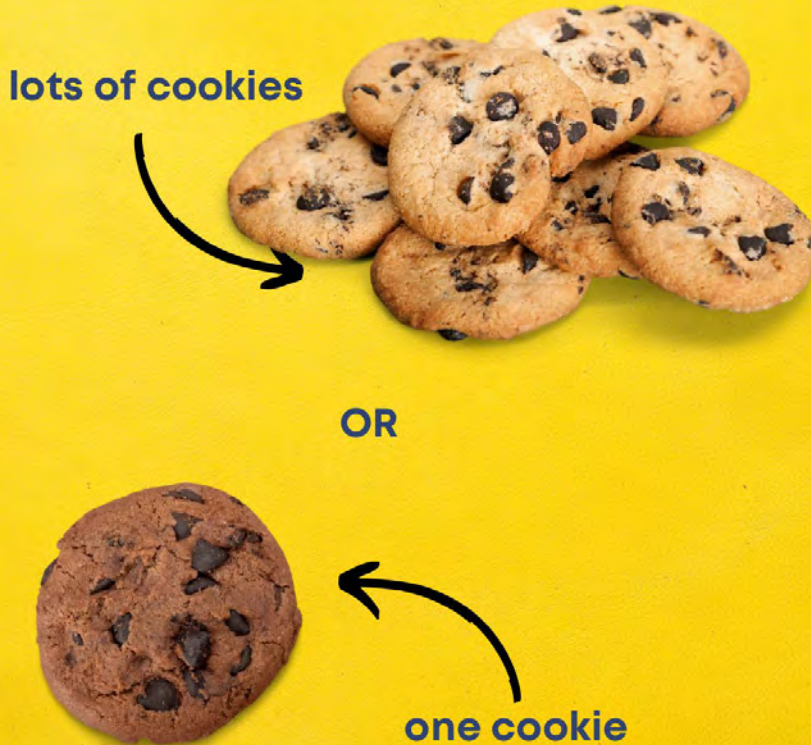
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NOTE

insurers who offer Business Protection prefer you to use a broker so you have the full advice service that brings. Many insurers do not offer plans direct, so you're limiting the options you can choose from going direct

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USING A BROKER



Wouldn't you prefer to have a choice of cookies rather than just one? Using a broker for Business Protection can be beneficial because they have access to a variety of policies from different insurance companies. This allows them to compare options and find the best policy for your specific needs and budget. Additionally, brokers can provide expert advice and guidance throughout the application and underwriting process, ensuring you get the coverage you need at the best possible price.

A broker is an essential intermediary that can help businesses navigate the complex and ever-changing landscape of insurance protection. A broker is an expert in the insurance industry, and they can provide guidance and advice to help businesses select the most appropriate policies to protect their operations from risks and uncertainties.

One of the main reasons businesses should use a broker for business protection is that brokers have access to a wide range of insurance providers, including those that are not available to the general public. This means that brokers can provide businesses with a broader range of options to choose from, giving them more choice in selecting the best policies to meet their specific needs. Additionally, brokers have a deep understanding of the different insurance providers' products and services, so they can advise businesses on which policies offer the most comprehensive coverage and the best value for their money.

Another benefit of using a broker is that they can help businesses negotiate better premiums and terms with insurance providers.

SHAREHOLDER PROTECTION

Shareholder protection is a type of insurance that helps to safeguard a business and its owners in the event of the death or critical illness of a shareholder. If a shareholder dies or becomes critically ill, this type of insurance policy provides a lump sum payment to the remaining shareholders or the business itself. This payment can be used to buy back the affected shareholder's shares, allowing the business to remain in the hands of the remaining owners.

Shareholder protection is an important consideration for any business that has multiple owners or shareholders. Without this type of protection, the death or critical illness of a shareholder could leave the remaining owners in a vulnerable position, potentially leading to disputes over the future of the business or financial difficulties.

By having shareholder protection in place, businesses can ensure that they are prepared for unexpected events and can continue to operate smoothly even in difficult circumstances. This type of insurance can provide peace of mind to business owners, knowing that their business and their interests are protected.



CROSS OPTION AGREEMENT

A cross-option agreement grants the surviving director a 'call option', which is a right, not an obligation, to purchase the deceased's shares at market value.

On the other hand, it gives the deceased's estate a 'put option', again not obligatory, to sell the shares to the surviving director at market value.

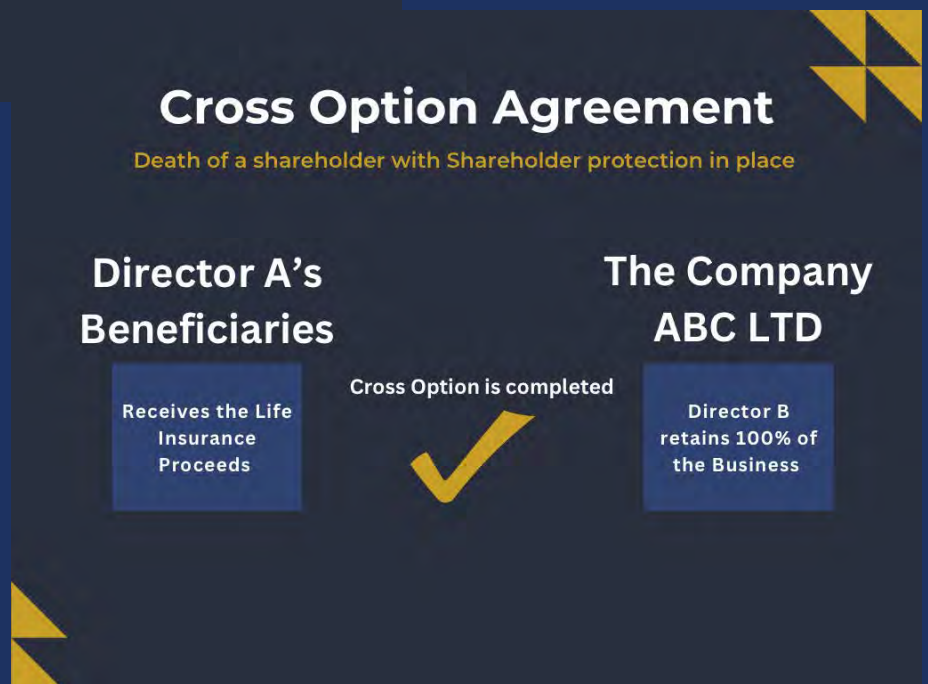
In this case, only one of the parties needs to exercise their option to buy or sell the shares for the agreement to be binding.

If either side wants to exercise their option, the other party must comply. Options can only be exercised after death and there will be a specific option period.



On the death of Director A, their share of the business passes to their beneficiaries. The Life Insurance pays out. The company can execute the Cross-Option Agreement, using the proceeds to purchase Director A's share of the business.

Director A's beneficiaries receive the proceeds, and Director B owns 100% of the company



KEY PERSON COVER

Key person cover, also known as key man insurance, is a type of business insurance that provides financial protection to a company in the event of the loss of a key employee or owner. Key person cover is a policy that is specifically designed to protect businesses against the financial impact of losing a key person.

A key person is typically someone who is essential to the running of the business, and whose absence would have a significant impact on the company's operations or profitability. This could include a business owner, director, or employee with specific skills, expertise, or contacts that are critical to the success of the business.

Key person cover can provide a lump sum payment to the business in the event of the death, critical illness, or disability of a key person. This payment can be used to cover a range of expenses, including the cost of recruiting and training a replacement, paying off debts, or compensating for any loss of profits.

A broker can help you calculate the right cover amount and should have access to tools to help with this.

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THINGS TO ASK YOURSELF?

If you lost a member of staff to a competitor could affect profits? Could it cause a financial headache for my business? Do they have a unique set of skills or the only person in the business that can do that role?

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CRITICAL ILLNESS FOR KEY PERSON

If a key person in your business needs a significant time away from your business, the effects on your business could be catastrophic and just as bad if they were to die.

Key Person cover can provide a cash injection into your business to help maintain it's cash flow and deal with any loss of profits until that person can return to work.

PUT LIFE COVER ON EXPENSES

RELEVANT LIFE PLAN (RLP)

Relevant Life Plan offers additional advantages, most notably tax efficiency. The life cover is tailored to you and your employees, yet counts as a business expense so it's tax deductible. It does not count towards annual or lifetime pensions, and if your business is not suited to a group life scheme, Relevant Life Plan is a cost-effective way to offer employee life cover.

Under a relevant life cover policy, the employer pays the premiums and is the policyholder, while the employee is the life assured. If the employee were to die while the policy is in force, the policy would pay out a tax-free lump sum to the employee's beneficiaries. The amount of cover is usually based on the employee's salary or a multiple of their salary.

Relevant life cover is a popular option for small business owners or self-employed individuals who want to provide life insurance for themselves or their employees, but who do not want to set up a full group life insurance scheme.

One of the main benefits of relevant life cover is that it is not subject to inheritance tax, meaning that the policy payout can be received by the employee's beneficiaries tax-free. It also does not count towards the employee's annual or lifetime pension allowance, making it a tax-efficient way to provide life insurance cover.

Relevant Life Insurance can cover any 'Employee' can include: employee, provided:

- There is a employer-employee relationship between the owner of the cover and the person covered.
- The employer agrees to pay the premiums.
- Directors on PAYE;
- Contractors set-up as 'One Man Ltd' company (Eg: Management Consultants, IT Contractors, etc).
- 'Salaried' partners who are taxed under PAYE on their employment income (Eg: Company Secretary).

HOW MUCH COULD A RELEVANT LIFE POLICY SAVE YOU?

This illustration shows the difference in the gross cost of providing life cover that costs £100 a month through a relevant life policy taken out by an employer compared to a policy you would take out yourself

Relevant Life Policy

PREMIUM £ 100

PERSON COVERED TAX RATE 20%

COMPANY CORPORATION TAX RATE 19%

EMPLOYEE INCOME TAX RATE 20%

EMPLOYEE NATIONAL INSURANCE TAX RATE 12%

EMPLOYER NATIONAL INSURANCE TAX RATE 13.8%

ORDINARY LIFE POLICY

EMPLOYEE GROSS SALARY INCREASE £ 147.06

EMPLOYEE NATIONAL INSURANCE £ 17.65

EMPLOYEE INCOME TAX £ 29.41

EMPLOYER NATIONAL INSURANCE £ 20.29

CORPORATION TAX RELIEF £ 31.80

NET COST OF PREMIUM £ 135.56

RELEVANT LIFE POLICY

CORPORATION TAX RELIEF £ 19.00

NET COST OF PREMIUM £ 81.00

TOTAL SAVING OF 40%



EXECUTIVE INCOME PROTECTION

What is executive income protection, you might ask? Simply put, it's a type of insurance that provides financial support to a business in the event that one of its key executives is unable to work due to illness, injury, or other circumstances.

At first glance, this might not seem like something that all businesses need. After all, if you're a small business owner or a startup founder, you might think that you can handle any setbacks that come your way. However, the truth is that any company, no matter how big or small, can benefit from executive income protection.

Think about it: if you or other top executive were to suddenly become incapacitated and unable to work, how would your company cope? Could you afford to keep paying their salary, or would you have to hire someone else to fill their shoes? And if you did need to hire a replacement, how long would it take to find the right person and get them up to speed?

These are all questions that businesses need to consider when they're thinking about executive income protection. By investing in this type of insurance, you can ensure that your company will be able to weather any storms that come its way.

Of course, there are other benefits to executive income protection as well. For one thing, it can be a valuable tool for attracting and retaining top talent. If your employees know that they'll be taken care of if something happens to them, they'll be more likely to stick around for the long haul.

- The monthly benefit pays out to the employer and is passed on to the employee via PAYE to cover the cost of sick pay, so protecting the business finances.
- Designed for small and medium businesses (SMEs) and covers up to 80% of the employee's earnings plus the employer's National Insurance and pension contributions (maximum levels apply).
- Usually counts as a tax-deductible expense for the employer.
- More tax efficient than personal Income Protection cover for the employer.

VALUE ADDED

Benefits

1

24/7 GP Service



24/7 access to virtual GP consultations by experienced, NHS practising doctors. Handy if clients are finding it difficult to speak to their own GP.

2

Track Active Me



Created by physiotherapists, this app helps assess a musculoskeletal problem such as muscle, joint or spinal pain, and gives clients physiotherapy advice and personalised exercises.

3

Support & peace of mind



RedArc, an independent nurse advisory service, who'll give them regular support from a dedicated nurse. They'll provide tailored and personal support whenever it's needed, for as long as it's needed.

4

Mental Health Wellbeing



Clients can improve their mental wellbeing with this NHS approved app. They'll get personalised recommendations to help prevent, detect and self-manage mental health conditions.

The primary benefit of any insurance policy is undoubtedly the sense of security and financial coverage it offers in case of unexpected events. However, this advantage may not always seem tangible to individuals, and they may perceive paying monthly premiums for a hypothetical payout as an unnecessary expense.

Nonetheless, insurance policies have evolved over time, and nowadays, they offer numerous tangible benefits that clients can enjoy in their day-to-day lives. These advantages are more likely to be used and can provide significant real-world value to policyholders.

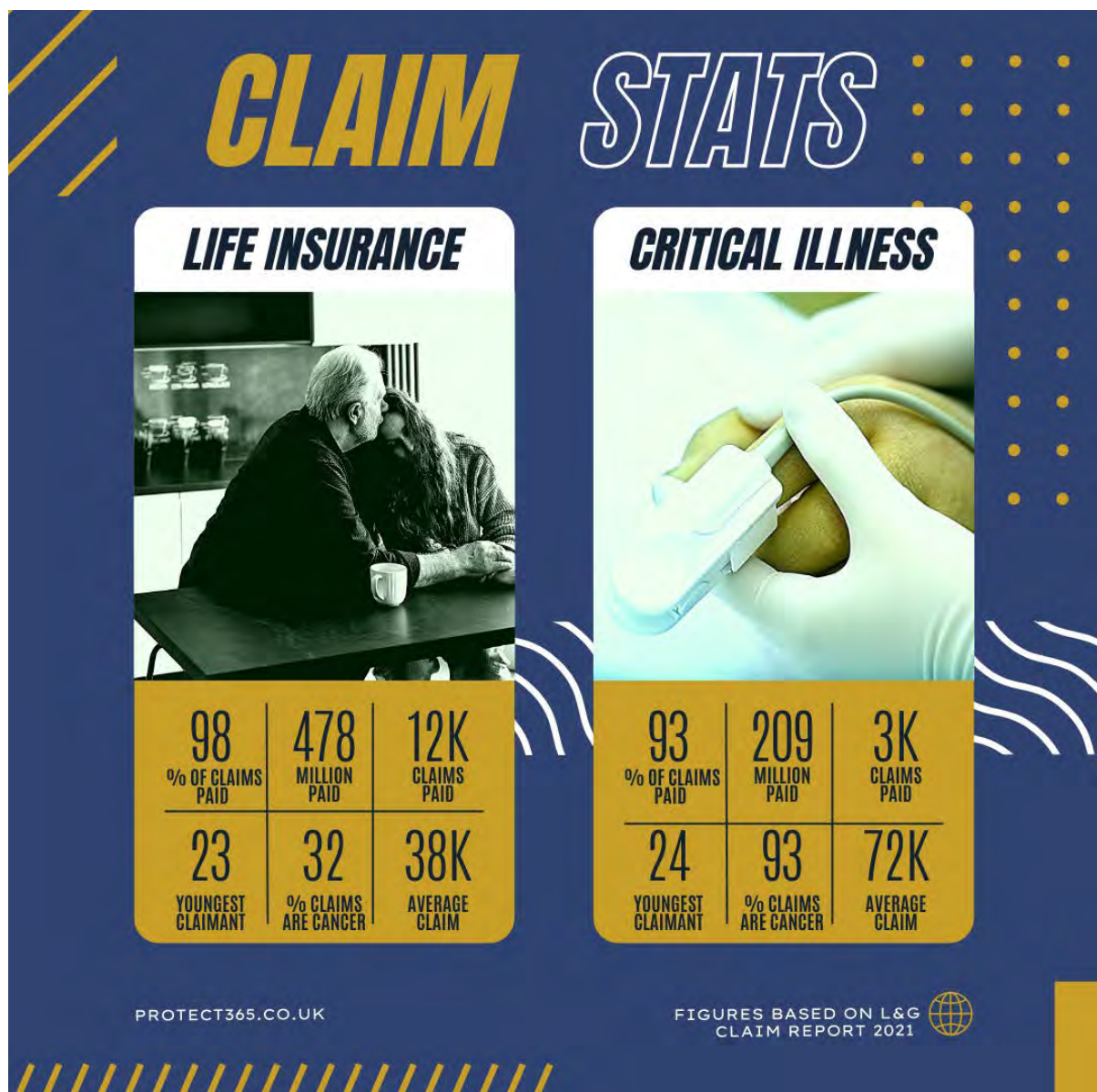
The graphic shown is support available through Royal London's helping hand service, many providers offer similar.

- A second medical opinion
- Support recovering from a heart attack
- Speech and language therapy after a stroke
- Complementary therapies to help manage symptoms or help with recovery
- Bereavement counseling and support

Providers also offer access to independent career, legal and medical helplines to support you when you need advice or a professional opinion.

INSURANCE DOESN'T PAYOUT

The stats speak for themselves, each year every provider will publish their claim stats, the ones you see below are Legal and General. The issue of insurers not paying claims is a common fear among those considering Business insurance. This fear is often compounded by negative media coverage and personal experiences. However, in our experience, insurers have strict guidelines and work hard to fairly assess claims. Misunderstandings often occur during the claims process, so it's crucial for policyholders to fully understand their cover and the claims process. As intermediaries, we take it as our responsibility to explain policy nuances clearly and provide advice. We break down policy benefits, including what is and is not covered, and provide a comparison table if necessary. It's important for policyholders to review the Insurance Product Information Document to be aware of any exclusions.



INSURANCE DOESN'T PAYOUT

Just looking at these astonishing claim stats published by Aviva, they paid out over £1.1bn in individual protection claims helped more than 53,700 customers and families in 2021, that's around £3m in payments made to customers every day!

Aviva Claim Stats 2021

Protect365

PRODUCT	NUMBER OF CLAIMS PAID	VALUE OF CLAIMS PAID	% OF CLAIMS PAID
Life insurance (inc: terminal illness benefit)	43,954	£731,647,930	99.4%
Critical illness (inc: Children's Benefit+TPD)	4,367	£309,693,179	92.4%
Income protection	4,300	£51,206,137	85.4%
Fracture cover	815	£1,960,215	87.6%
Hospital and trauma cover	277	£412,273	99.3%
Totals	53,713	£1,094,919,735	99.3%

In fact, in the last five years, Aviva alone has paid out around £5bn across more than 187,000 individual protection claims, with 97.7% of all claims paid. Again, where does the myth Insurance doesn't pay out come from?

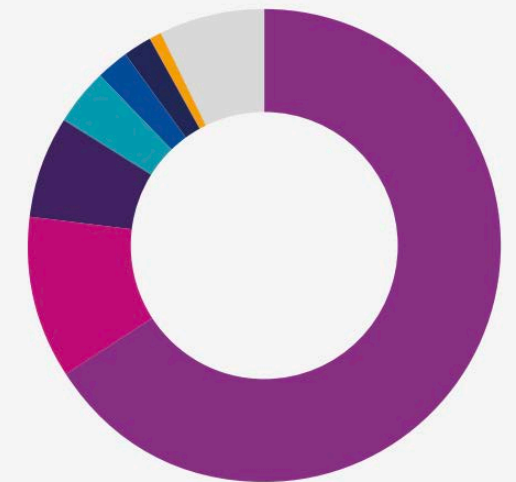
WHY DO CRITICAL ILLNESS CLAIMS GET DECLINED?

Of the 7.6% of claims declined, 5.5% was because the definitions in the policy were not met while 1.8% was because the customer misrepresented relevant health and lifestyle information during the policy application. This is why it's incredibly important to give the insurer the correct information and understand what definitions are covered when taking out a policy.

MOST COMMON CLAIMS

CRITICAL ILLNESS CLAIMS

Overall claims paid:



Cancer	66%
Heart Attack	11%
Stroke	7%
Multiple Sclerosis	4%
Benign brain tumour	2%
Heart Valve Replacement or Repair	2%
Coronary Artery By-Pass Graft	1%

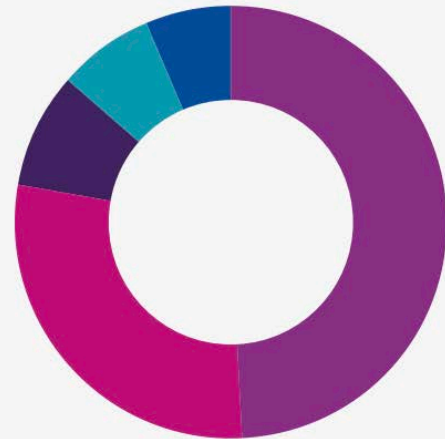
As you can see Cancer is still the dominant force when it comes to how our lives and income are affected by Critical Illnesses. These stats from Aviva are available Online with further detail. Let's delve a little bit further into the types of cancer.

The most common cancer types for critical illness claims

Breast	32.5%
Gastrointestinal	10.1%
Prostate	8.4%
Haematological	7.6%
Skin	7.5%
Gynaecological	4.8%
Head and Neck	3.5%

LIFE CLAIMS

Overall claims paid:



Cancer	40%
Cardiovascular	23%
Respiratory	7%
Suicide	6%
Accidental Death	5%

The most common cancer types for life insurance claims (excludes life insurance claims for over 50s and terminal illness claims)

Gastrointestinal	20%
Lung	14%
Breast	10%
Pancreas	6%
Haematological	6%
Brain	5%
Gynaecological	5%

Again, just like with Critical Illness Cancer dominates the reason for claims when it comes to Life Insurance.

Providers love to shout about their claims. Just google it, you'll be pleasantly surprised on the commitment providers make in looking after their clients. As a broker we can help with the claims process at a difficult time.

CASE STUDY

THE CASE

A company is valued at £2m with two directors and three highly valued employees. No existing business protection cover is in place.

The directors' family members do not have the interest or experience or skills to become actively involved in the business.

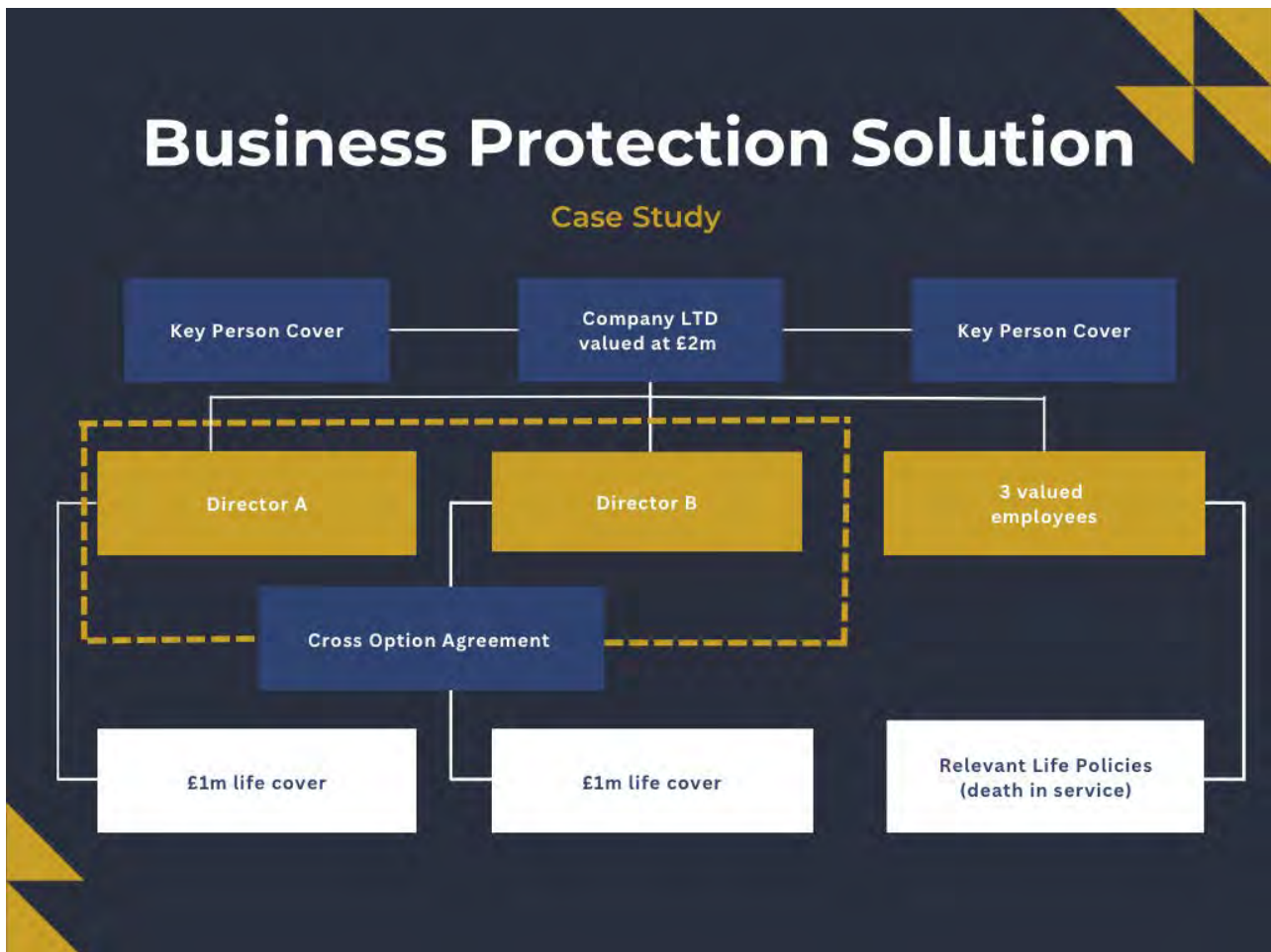
On the other hand, neither director would have sufficient funds to buy out their business partner's stake if they were to pass away or become seriously ill

THE SOLUTION

One solution recommended is a key person policy taken out for each of the directors. This gives the company a lump sum benefit to cater for an anticipated loss of future revenue.

We've then got Shareholder Protection working with the cross option agreement to ensure the remaining director keeps control of the business providing enough capital to purchase the deceased shares.

Finally we've provided death in service to valued Employees through a relevant life policy (RLP)



CASE STUDY

THE COST

As with most protection policies, the cost will depend on a number of factors, including age, lifestyle, health and so on.

The premiums can also become cheaper by using a renewable clause option.

For £1m of life cover, a relevant life policy for a 35 to 40-year-old could cost around £35 to £75 a month with renewal clause, and around £100 to £150 without.

Key person or shareholder protection for the same person (but this time including £500,000 of critical illness cover) could come to about £140 to £200 a month, though CI can be removed to reduce the cost.

QUESTIONS TO ASK YOURSELF

- Is your business financially resilient against death?
- Is your business financially resilient against cancer, heart attack and stroke?
- Do you have the capital in the business to buy the shares of a deceased shareholder and keep control of your business?
- Is there anyone in your business that you think is irreplaceable?

TO SUMMARISE

Choosing between the different types of policies can be complicated, therefore business owners should engage with a professional when assessing the suitability of each product.

HOW TO VALUE YOUR BUSINESS

First and foremost, your accountant should be able to give you a value of your business.

BUSINESS VALUATION CALCULATOR

One of the easiest way to find the potential value of a business is to base it on average net profits from the last 3 years net profits of the company, the net assets and a profit multiplier.

PROFIT MULTIPLIER FOR VALUATION

The profit multiplier for valuation (also called the price earnings ratio) is used to estimate the current value of future earnings. The multiple depends on market conditions, expected growth rates and the industry that the company operates in.

CHOOSING YOUR PROFIT MULTIPLIER

1. Steadily reducing profits
2. Slightly reducing profits
3. Regular, but not increasing profits
4. Regular, moderate increase in profits
5. Steadily increasing profits
6. Significantly and regularly increasing profits

NET ASSETS

This is the value of the assets the business owns, less the liabilities as per the most recent and accurate company balance sheet.

EXAMPLE

Company AAA

Average net profit - £100,000

Net Assets - £25,000

Profit Multiplier - High growth (6)

2 shareholders with 50% shareholding

$£100,000 + £25,000 \times 6 = £625,000$

(potential value of the business)

SHAREHOLDER COVER

Based on a potential value of Company AAA, each shareholder would have cover of £312,500. which is taken out under an own life policy. Each shareholder can take this out, and the policy is written under a business trust

HOW TO VALUE A KEY PERSON

THE LOSS OF PROFITS

to the business is a good start point to calculate the cost of replacing a key person in the business. There are many other ways to do this, and other factors may need to be added, particularly for highly specialised industries where the costs will be higher.

GROSS OR NET PROFITS?

For key people who directly influence money coming into the business (such as sales staff) use gross profit. For key people responsible for managing cash flow (such as a managing director) use net profit.

Commonly used multiples are applied. Use a profit multiple of 2 for those whose contribution is to gross profit and 5 for contribution to net profit.

EXAMPLE - TOP SALES PERSON

If your top Sales Person brings in a Gross Profit to the business of £100,000, we would use a profit multiplier of 2.

$£100,000 \times 2 = £200,000$ of Key Person Cover

If it was a Managing Director, the they were responsible for £100,000 net profit to the business we would use the net profit multiplier of 5 = £500,000.

PROPORTION OF SALARY ROLL

An alternative for employees is to calculate the key person's contribution to turnover as shown in the formula below. It will usually take at least a year to train and recruit a replacement, but in some cases it could take three or even four years.

$$\frac{\text{Key Person's Salary}}{\text{Total Salaries}} \times \text{Turnover} \times \text{Years to recruit and train a replacement}$$

HOW TO VALUE A KEY PERSON

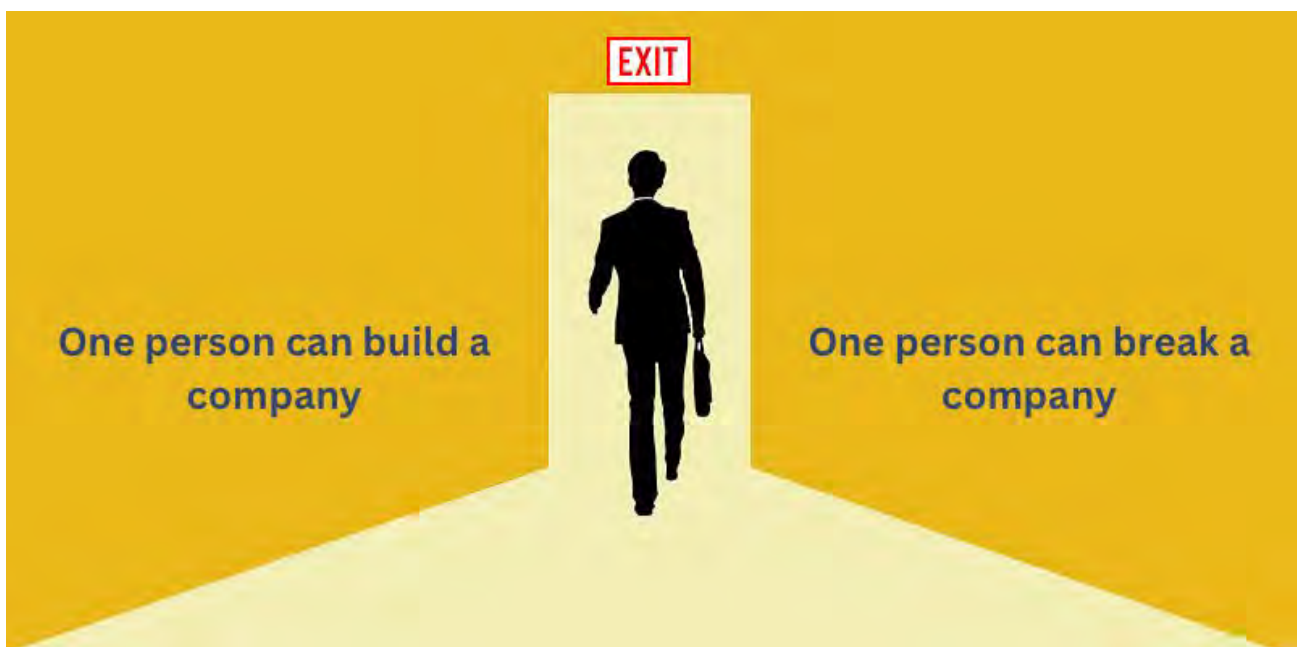
WHO IS A KEY PERSON?

A key person is someone whose death, critical illness or disability would have a serious effect on the future profits of the business. In any given business a number of people could be regarded as 'key' including the partners, members, senior employees or the owner.

There will always be at least one key person in any given business. However, clients should also consider the impact of losing someone who may not have any financial stake in the business but nevertheless plays a fundamental role in its success.

You can find out who the key people are by asking:

- How easily could the business replace their expertise?
- Would their absence affect business expansion plans or ongoing projects?
- Would the business be in danger of losing customer orders?
- Would it result in a loss of goodwill or hardening of suppliers' credit terms?
- Would the business miss their administration or management contribution?
- Are there any loans or overdrafts that depend on the key person?



LOSING A KEY PERSON

As we know Key Person Cover allows you to protect your business from the financial impact of losing a key employee (including owners/managers), whose death or illness would have a significant impact on the financial position of the business

You already understand the need to protect their business premises and equipment. However, many businesses forget about their most valuable asset – their staff. The death or critical illness of a key employee or co-owner can seriously impact on a business, financially as well as the loss of key knowledge.

Let's take a look at some of the consequences of losing key members of staff

1. **Loss of Expertise:** The loss of a key person in your business can result in a significant loss of expertise, knowledge, and experience. This can be particularly damaging if the person had a unique skill set or was responsible for critical functions within the company.
2. **Disruption to Operations:** Losing a key person can disrupt operations and cause delays or interruptions to ongoing projects, resulting in decreased productivity and revenue loss.
3. **Decreased Morale:** The loss of a key person can negatively impact morale within the company, particularly if the person was well-liked or had a significant role in team dynamics.
4. **Increased Workload:** When a key person leaves, their responsibilities often fall to other employees, resulting in increased workloads and potential burnout.
5. **Loss of Customers:** Key personnel often have strong relationships with customers, and losing them can lead to a loss of business and potential damage to the company's reputation.
6. **Financial Impact:** The loss of a key person can have a significant financial impact on the business, including costs associated with finding and training a replacement and potential revenue loss.
7. **Supplier and creditors Concerns:** The loss of a key person can cause concern among suppliers and creditors, potentially leading to loss of work and terms changing

TAX IMPLICATIONS

WHAT ARE THE TAX IMPLICATIONS OF BUSINESS PROTECTION?

The tax implications of business protection depend on the type of arrangement.

KEY PERSON

- It is unlikely that the business will get tax relief on the premiums where the life assured is a significant owner of the business.
- Tax relief is possible if the life assured is an employee and the plan is for a short term (less than 5 years).
- Plan proceeds paid to a limited company or limited liability partnership are likely to be taxed as a trading receipt.
- If the plan has been taken out by a partner on the life of a key employee and written in trust, the plan proceeds will, generally be paid free of tax.

OWNERSHIP PROTECTION

Premiums paid by a limited company for plans written under a trust will usually be regarded as a trading expense, however, they will be taxed as income on the shareholder.

- Premiums paid by a limited company under a company share buy-back arrangement will not get relief, but the shareholder will not be taxed.
- Premiums paid for partnership cover will not receive tax relief.
- If a partner or shareholder pays the premiums, this would be paid out of their pay after tax and would not attract tax relief.
- Generally, the proceeds of the plan would be paid free of tax.

LOAN PROTECTION

- Premiums will not attract tax relief.
- Plan proceeds are generally received free of tax as a capital receipt.

Disclaimer

The information provided is based on our current understanding of the relevant legislation and regulations and may be subject to alteration as a result of changes in legislation or practice. Also it may not reflect the options available under a specific product which may not be as wide as legislations and regulations allow.

All references to taxation are based on our understanding of current taxation law and practice and may be affected by future changes in legislation and the individual circumstances of the investor.

Protect365
protect365.co.uk
0191 716 6642



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