



Vizion Wealth

Independent Financial Advisers & Wealth Managers



A GUIDE TO **BUSINESS PROTECTION**

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Protecting the key people who are driving your business forward is our speciality

How much is a key employee worth to a business? And how would, or could, that business cope without them? Many private businesses rely on one key person. Financial protection is vital to allow businesses to recover quickly and minimise the impact should the worst happen.

Business protection helps to protect a business should a director, partner, member or key employee suffer a critical illness, become unable to work due to a disability or die. It helps to make things right when

things go wrong. At Vizion Wealth LLP, we are experts at protecting businesses, and we are here to help at every step of the way.

Most businesses today make sure their assets are covered against the effects of fire, theft or any unforeseen event. What about key employees – should it not be second nature for your clients to protect this asset as well? Many businesses often cite people as their most valuable asset, although they do not consider their financial value.



Different types of business protection

Don't overlook your most important assets – the people who drive your business

Key person insurance – is designed to compensate a business for the financial loss brought about by the death or critical illness of a key employee, such as a company director or other integral member of staff. It can provide a valuable cash injection to the business to aid a potential loss of turnover and provide funds to replace the key person.

You cannot replace the loss of a key person, but you can protect against the financial burden such an event may cause. Without the right cover in place, you could also risk losing your business. Key person insurance can be utilised in a number of different ways – for example, to repay any loans taken out by the key person; to help recruit and fund the training costs for replacement staff; to meet the ongoing expenses while the level of sales recover; or to facilitate payments for outside consultants or expert advice that may be required.

Whatever the key person does, their loss could have disastrous consequences. Some of the problems the business may face are:

- Loss of profits
- The need to recruit or train a replacement
- Loss of important personal or business contacts
- Difficulties in meeting existing loan repayments
- Loss of confidence from suppliers and customers
- Difficulties in raising new finance for new developments
- Loss of detailed knowledge of the business' processes and systems
- Having to repay a loan the key person has made to the business
- Loss of goodwill





Shareholder and partnership protection – provides an agreement between shareholding directors or partners in a business, supported by life assurance to ensure that there are sufficient funds for the survivor to purchase the shares. It is designed to ensure that the control of the business is retained by the remaining partners or directors, but the value of the deceased's interest in the business is passed to their chosen beneficiaries in the most tax-efficient manner possible.

If a shareholding director or partner were to die, the implications for your business could be very serious indeed. Not only would you lose their experience and expertise, but consider, too, what might happen to their shares.

The shares might pass to someone who has no knowledge or interest in your business. Or you may discover that you can't afford to buy the shareholding. It's even possible that the person to whom the shares are passed then becomes a majority shareholder and so is in a position to sell the company.

The shareholding directors or partners in a business enter into an agreement that does not create a legally binding obligation on either party to buy or sell the shares but rather gives both parties an option to buy or sell, i.e. the survivor has the option to buy the shares of the deceased shareholder, and the executors of the deceased shareholder have the option to sell those shares.

In either case, it is the exercise of the option that creates a binding contract; there is no binding contract beforehand. This type of agreement is generally called a 'cross-option' agreement or a 'double option' agreement.

Cross option agreement – also known as the 'double option' or 'put and call agreement'. By taking out a cross option agreement, you will determine what will happen to the shares in the business if one of the owners were to die or become critically ill. It is important that this agreement is not binding regarding sale of the shares, because this will prevent you from claiming relief from inheritance tax.

Different forms of protection

There are various options to choose from, including life cover only, critical illness cover, or combined life cover and critical illness cover. You can select different levels of cover and terms depending on your specific requirements, and there are also policies available that pay out a regular income in the event of sickness.

Life cover – a relevant life policy is an alternative way for an employer to set up life cover for a key employee in a tax-efficient manner, without using a registered death in service group life scheme to benefit the employee's dependents.

Key person critical illness cover – pays a tax-free sum of money to key employees or the business owner in the event of a specified or serious illness, such as a heart attack or stroke.

Key person income cover – protects key individuals by paying their salaries while they're unable to work.

Key private health insurance – funds private healthcare for key employees. As well as being an extra benefit of

employment, it could help them to return to work more quickly after an illness by paying for rehabilitation treatment.

Loan protection – when a business borrows money from a bank or other financial institution, it is common that the business will want some form of protection cover to repay all, or some, of that loan on the death of a key person.

It could also be that the business owners have lent money to their own business. These are called director's or partner's loan accounts and need to be repaid on death.

Financial protection is vital in the current economic environment to ensure that a business can repay corporate loans should the worst happen.



CALCULATING THE LEVEL OF COVER REQUIRED

The cover required is typically measured by reference to the key person's contribution to the profits of the business. This may be based on the following information: past profits and projections for the future; the effect that the loss of the key person would have on future profitability; the anticipated cost of recruiting and/or training a replacement; the expected recovery period, for example, the length of time before a replacement is effective; and the amount of any loan(s) that would be called in on the death of the key person.

“MOST BUSINESSES UNDERSTAND THE NEED TO MANAGE THE RISKS THEY FACE EVERY DAY. THEY INSURE THEIR PREMISES, EQUIPMENT AND STOCK AGAINST FIRE, FLOOD AND THEFT. THEY INSURE THEIR VEHICLES. BUT MANY DON'T STOP TO THINK WHAT WOULD HAPPEN IF THEY LOST THEIR MOST IMPORTANT ASSET – THEIR PEOPLE.”

At Vizion Wealth LLP, we understand that running your own business can be all-consuming. As part of our service, we also take the time to understand your unique business needs so that we can provide you with the most suitable corporate protection solutions in the most cost-effective way. If you would like to discuss the range of services we offer, please contact us for further information.

We look forward to hearing from you.

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