Protecting your business

A guide to protecting your business against risks to 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 your co-owner(s) 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 collapse if you were no longer around or capable of running 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.

The good news is, with sound planning, these scenarios can be addressed and planned for with just a little forethought. We can help you protect against these risks and review any plans you may already have in place, to ensure they remain fit for purpose and suitable for your changing circumstances.

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Planning for the unexpected

If you were to die or become seriously ill, this could have a major financial impact on you, your family and your business.

Planning for the unexpected

Your 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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Protecting your business

The financial problems that might arise from your death can often be solved by taking out appropriate insurance. Premiums 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 in order to set up and hold the chosen insurance policies.

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

— The sum insured

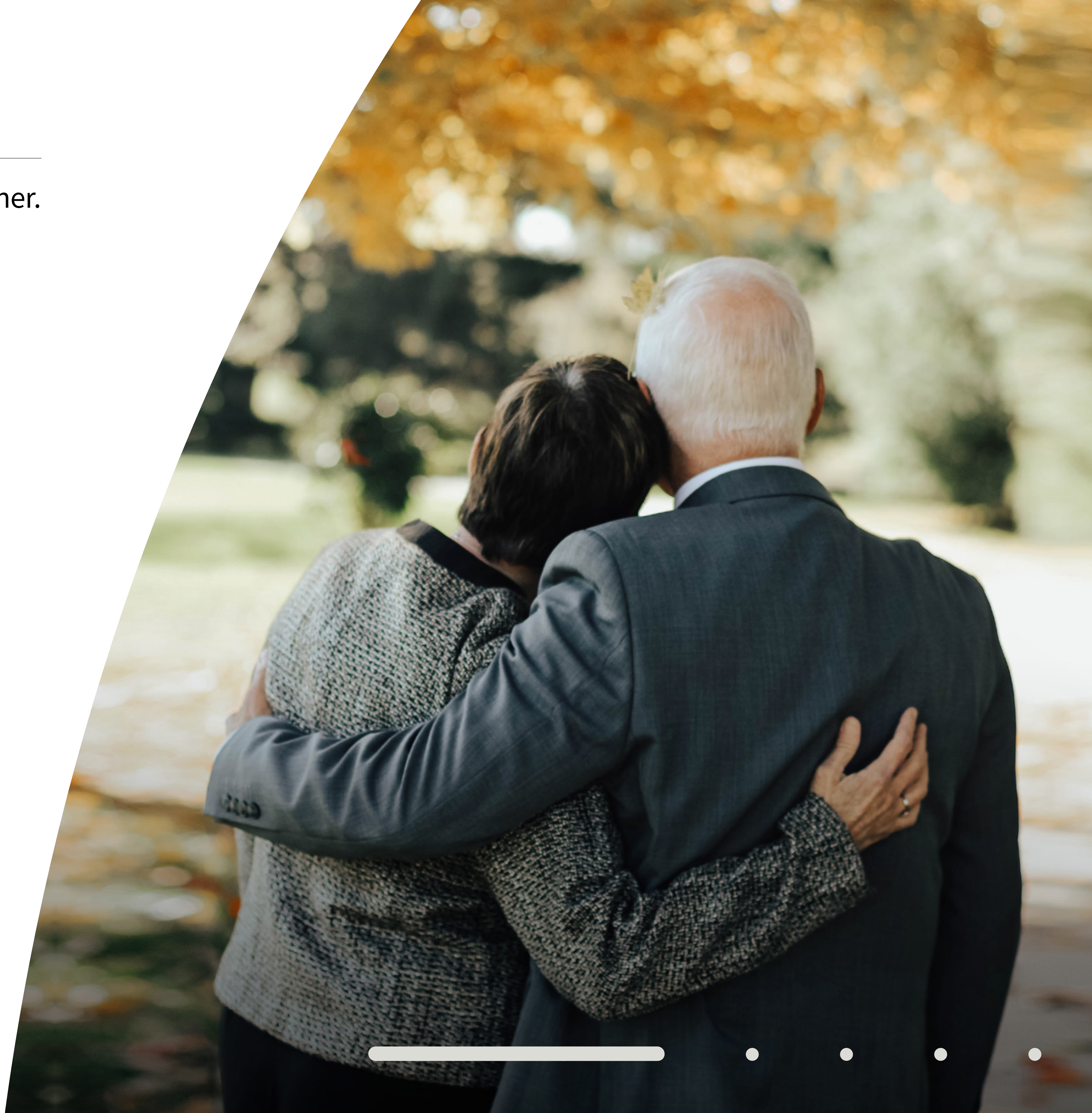
— The terms of the cover

— The age and health of the insured

Usually, 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.

Getting the right protection in place

The death of a business owner.



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Getting the right protection in place

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

In situations 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.

Getting the right protection in place — Example

Black Door Ltd is equally 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 written in trust for the benefit of 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 Claire's personal representatives.

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

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Getting the right protection in place

Serious illness of a business owner.

Getting the right protection in place

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

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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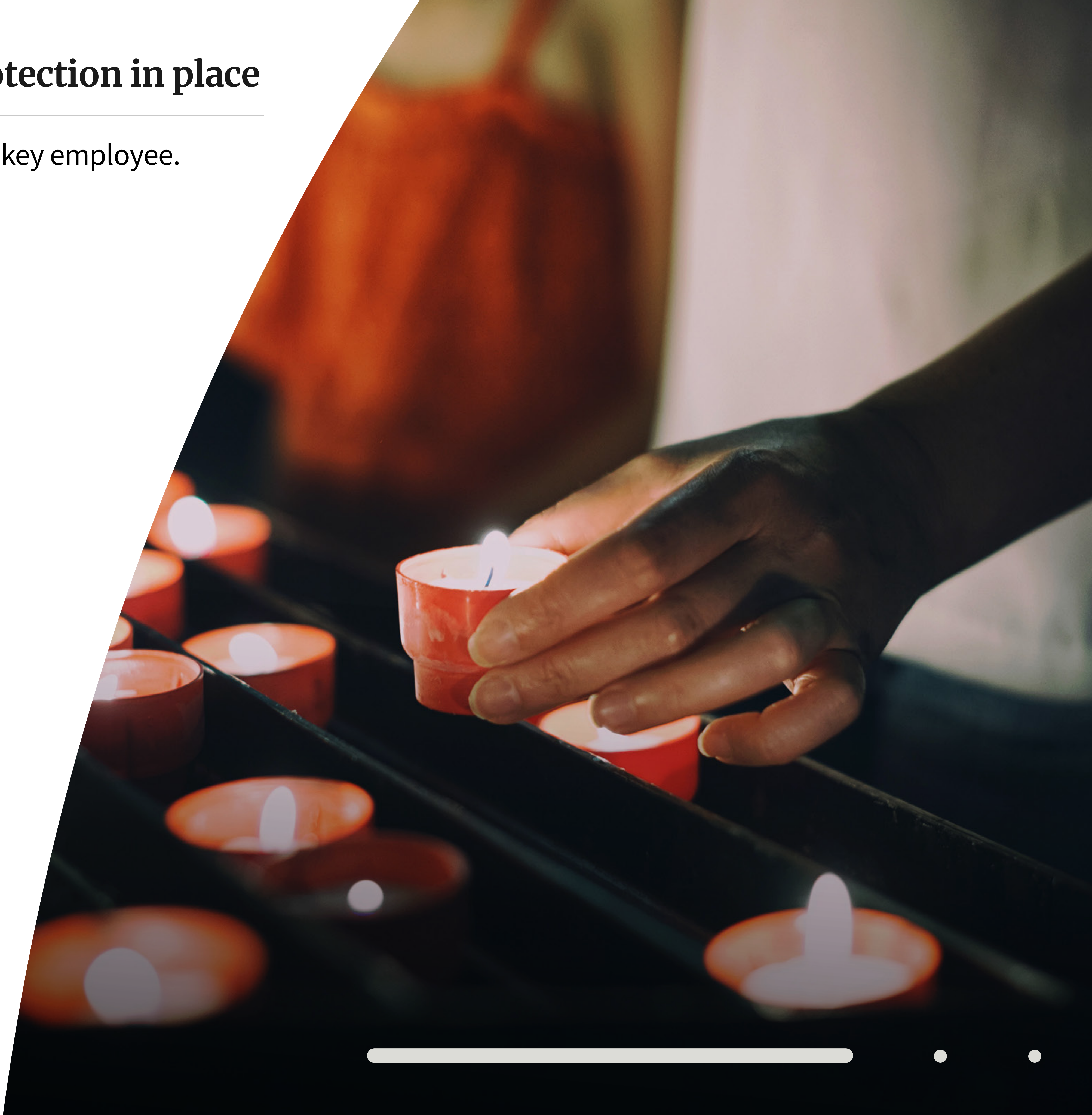
Getting the right protection in place

Death or serious illness of a key employee.



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Getting the right protection in place

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).

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
In case they had to be 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.

Sole traders

Appropriate life insurance that pays out on death or serious illness can help you and/or your family replace the income from your 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.

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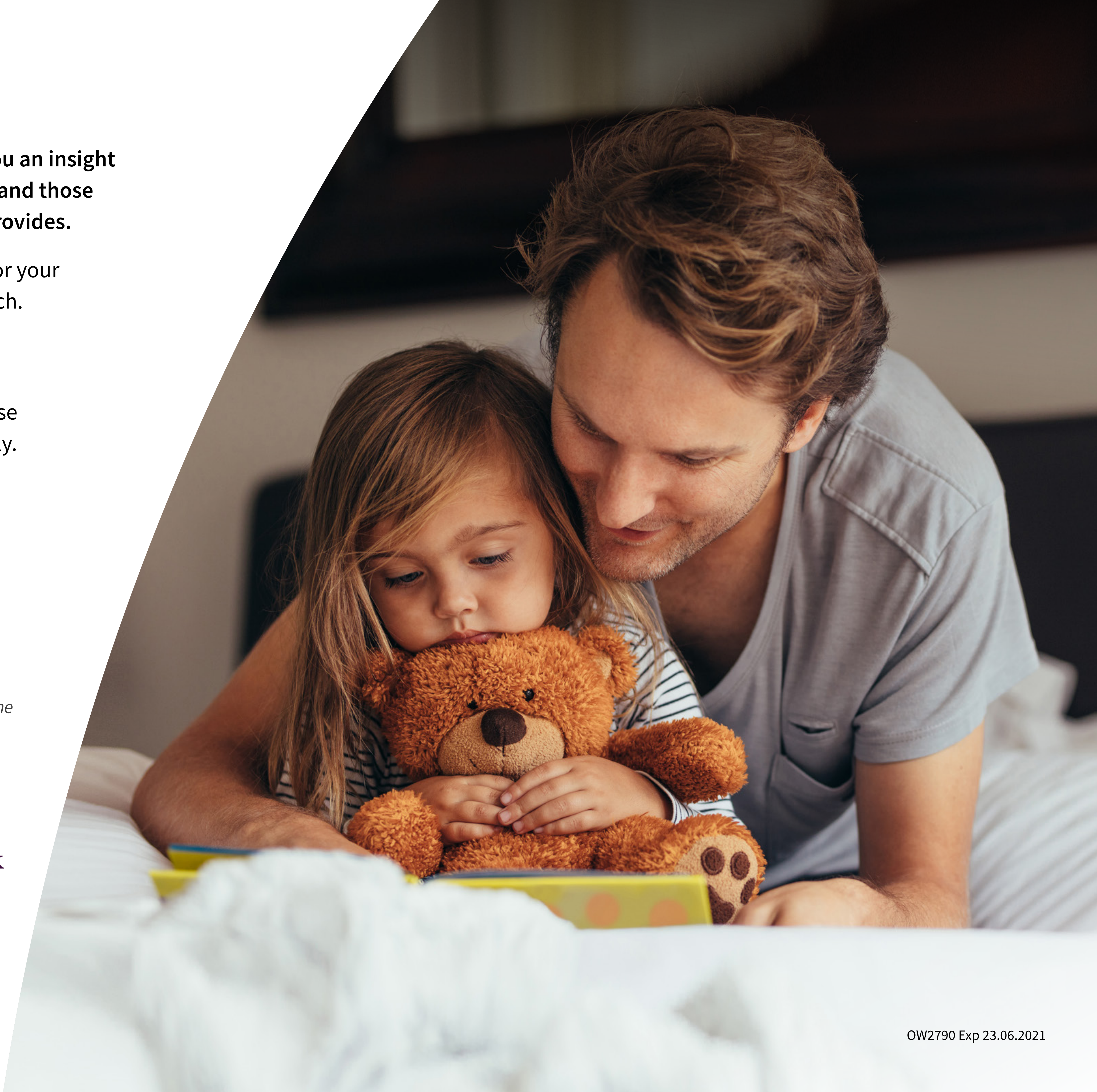
Next steps

We hope this guide has given you an 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 close it economically and tax-efficiently.



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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OW2790 Exp 23.06.2021