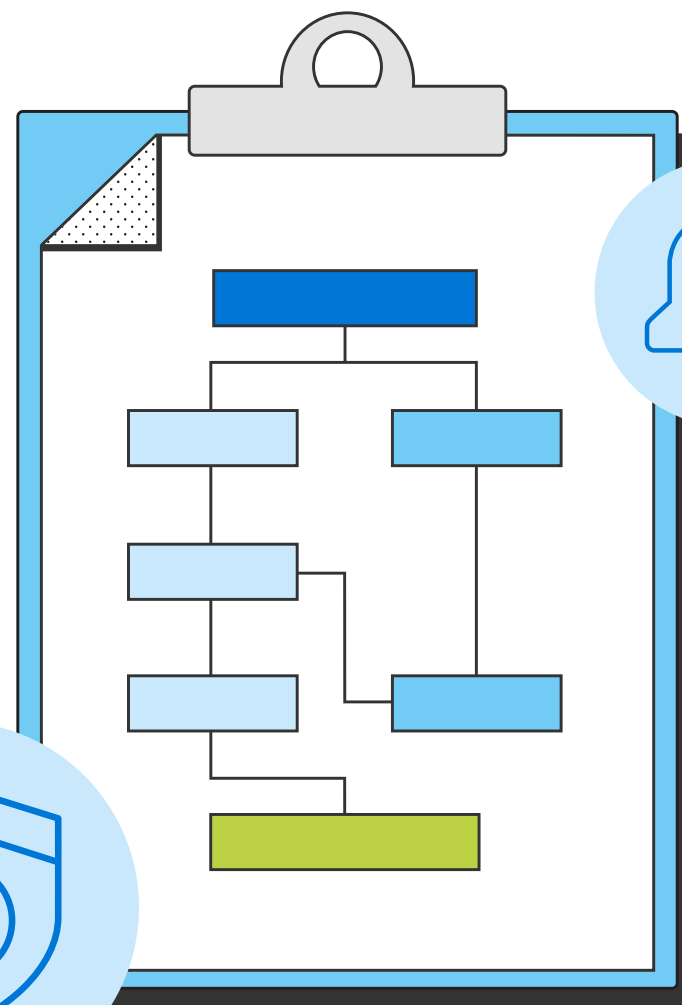


Business Protection

A plan for every business

A guide to support you when setting up your client's business protection solutions.



Different types of business will need a business protection solution that's right for them.

Business protection is designed to be comprehensive and flexible, so you can offer cover that's made to protect every company, key person, partnership and beneficiary.

This guide covers each aspect of business protection, helping you set up the client's cover correctly. It shows how a policy could be set up, who would own the policy and any tax implications each plan may have on the individual or the business.

Business protection solutions

Key person protection	Covers the loss of profits, or the cost of replacement staff due to illness, incapacity or death of a key person.	3
Share Protection	Helps business owners purchase the shares after the loss of a partner, member or shareholder.	4
Business Loan Protection	Pays outstanding loans or debts after the loss of a guarantor or key individual due to illness, injury or death (depending on the plan chosen).	6
Relevant Life Plan	A tax efficient way for a business to provide a death in service type of cover for their employees.	7
Executive Income Protection	It can help small businesses protect against the financial impact of their employee becoming ill or injured and unable to work.	7

Key person protection

Provides a benefit to a business in the event of a specified critical illness, injury or death of a key employee, depending on the product chosen. The benefit can be used to address a reduction in profits, meeting the costs of hiring a temporary replacement employee, or repay a loan.

Type of business				
	LIMITED COMPANY LIMITED LIABILITY PARTNERSHIP SCOTTISH PARTNERSHIP	PARTNERSHIP	SOLE TRADER	
SET UP	Business on the life of key person.	In Trust	Sole Trader on life of Employee	Own life
PRODUCTS AVAILABLE	<ul style="list-style-type: none"> Life Insurance Critical Illness Cover Key Person Income Protection 	<ul style="list-style-type: none"> Life Insurance Critical Illness Cover 	<ul style="list-style-type: none"> Life Insurance Critical Illness Cover Key Person Income Protection 	<ul style="list-style-type: none"> Life Insurance Critical Illness Cover
LIFE ASSURED	Employee or the member.	Partner or employee.	Employee	Own life
DOCUMENTS REQUIRED	Business Protection application form with ownership of benefits section to be completed	Business Protection application form Partnership Protection Trust deed.	Business Protection application form, with ownership benefits section to be completed.	Business Protection application form. Discretionary Trust deed.
PLAN OWNER	Limited Company Limited Liability Partnership or Scottish Partnership	The policy is written as an own-life policy which is under trust. The trustees under the trust own the policy.	Sole Trader	The policy is written as an own-life policy which is under trust. The trustees under the trust own the policy.
TAX ON INDIVIDUAL	None	Periodic and exit charge could apply to Trust.	None	Periodic and exit charge could apply to Trust.
TAX RELIEF ON PREMIUMS	May be available subject to Anderson principles being met. The business should check this with their local inspector of taxes. For more information please refer to our Guide to Key Person Protection.	None	May be available.	None
TAX ON BUSINESS	The policy proceeds are likely to be liable to business tax if tax relief is given on the premiums. The business should check with their local inspector of taxes.	None	None	None

Share protection

Could help your client buy a share of the business after a loss of business partner. This agreement between owners ensures that shareholders maintain the rights and the money to buy the remaining share and retain control of the business.

Type of business			
	SHARE PROTECTION Limited Company, Partnership, Limited Liability Partnership (LLP)		COMPANY BUY BACK
HOW ARE FUNDS TO MAKE THE PURCHASE PROVIDED?	OWN LIFE UNDER TRUST The surviving beneficiaries receive the funds from the Trustees. Either the owners or the Legal Personal Representatives (LPR) can then exercise the option agreement to buy or sell the share of the business.	LIFE OF ANOTHER The surviving owners receive funds from the plan. The surviving owners or (LPR) can exercise the option to buy or sell the share of the business.	COMPANY SHARE PURCHASE Company receives the funds from the plan and buys the shares from LPR of the deceased.
LIFE ASSURED	Shareholder, Partner, Member.	Shareholder, Partner, Member.	Shareholder
DOCUMENTS REQUIRED	Business Protection application form, Share Protection Trust form and cross option agreement. The policy should be in trust from outset .	Business Protection application form and cross option agreement.	Business Protection application form and share purchase agreement.
PLAN OWNER	The policy is written as an own life policy which is under trust. The trustees under the trust own the policy.	Shareholder, Partner, Member.	The Company
TAX ON INDIVIDUAL	If the business pays the premium this will be classed as remuneration and the individual will therefore be subject to Income Tax and National Insurance.	If the business pays the premium this will be classed as remuneration and the individual will therefore be subject to Income Tax and National Insurance.	None
WHO PAYS THE PREMIUM	Shareholder, Partner, Member. <i>If the business pays the premium on behalf of the owner. See above section on taxation.</i>	Shareholder, Partner, Member. <i>If the business pays the premium on behalf of the owner. See above section on taxation.</i>	The Company

In most cases the shareholder is also the director. These are two separate roles, shareholders are the owners of a company, while the directors are the individuals who manage the business and its operations. This means roles can be combined and they would be known as the shareholding director.

Share protection (continued)

Type of business

SHARE PROTECTION

Limited Company, Partnership, Limited Liability Partnership (LLP)

COMPANY BUY BACK

TAX ON THE DECEASED'S ESTATE

OWN LIFE UNDER TRUST INHERITANCE TAX (IHT)

Any benefits from the policy will be payable to the Trustees and not to the Shareholder's, Partner's or Member's estate. In addition, the policy premiums may fall within one or more of the inheritance tax exemptions.

If a Shareholder, Partner or Member dies and the cross option method has been used then any business property relief on their share of the business would be preserved.

CAPITAL GAINS TAX

There is no capital gains tax on death but the beneficiaries of the estate may be liable for the increase in value of the share of the business between death and sale, although in practice this would be rare.

However, in the event of the sale of a Shareholder's, Partner's or Member's share due to a terminal or critical illness, a capital gains tax liability may arise.

LIFE OF ANOTHER INHERITANCE TAX (IHT)

The benefits from the policy will be payable to the surviving Shareholders, Partners or Members.

If a Shareholder, Partner or Member dies and the cross option method has been used then any business property relief on their share of the business would be preserved.

CAPITAL GAINS TAX

There is no capital gains tax on death but the beneficiaries of the estate may be liable for the increase in value of the share of the business between death and sale, although in practice this would be rare.

However, in the event of the sale of a Shareholder's, Partner's or Member's share due to a terminal or critical illness, a capital gains tax liability may arise.

Seek legal and financial advice.

TAX ON THE BUSINESS

None, the business would not be liable to any tax.

None, the business would not be liable to any tax.

Premiums are paid by the company but Corporation Tax relief would not be available, as the policy is not to be used to meet a loss of profits on death. For company accounting periods starting on or after 1 April 2008, all gains made under policies owned by companies fall within the 'loan relationship' rules.

Business loan protection

Helps a business repay an outstanding loan if a Key Person dies or is diagnosed with a specified critical illness (if benefit chosen).
If income protection is selected the monthly benefit could be used by the business to service the monthly cost of the outstanding debts.

Type of business				
	LIMITED COMPANY LIMITED LIABILITY PARTNERSHIP SCOTTISH PARTNERSHIP	PARTNERSHIP	SOLE TRADER	
ELIGIBILITY/ SET UP	Business on the life of key person.	In Trust	Sole Trader on life of Employee	Own life
PRODUCTS AVAILABLE	<ul style="list-style-type: none"> • Life Insurance • Critical Illness Cover • Key Person Income Protection 	<ul style="list-style-type: none"> • Life Insurance • Critical Illness Cover 	<ul style="list-style-type: none"> • Life Insurance • Critical Illness Cover • Key Person Income Protection 	<ul style="list-style-type: none"> • Life Insurance • Critical Illness Cover
LIFE ASSURED	Employee (can include shareholder).	Partner or employee	Employee	Own life
DOCUMENTS REQUIRED	Business Protection application form with ownership of benefits section to be completed.	Business Protection application form Partnership Protection Trust deed.	Business Protection application form, with ownership benefits section to be completed.	Business Protection application form. Discretionary Trust deed.
PLAN OWNER	Limited Company Limited Liability Partnership or Scottish Partnership.	The policy is written as an own-life policy which is under trust. The trustees under the trust own the policy.	Sole Trader	The policy is written as an own-life policy which is under trust. The trustees under the trust own the policy.
TAX ON INDIVIDUAL	None	Periodic and exit charge could apply to Trust.	None	Periodic and exit charge could apply to Trust.
TAX RELIEF ON PREMIUMS	None	None	None	None
TAX ON BUSINESS	None	None	None	None

Relevant Life Plan and Executive Income Protection

A Relevant Life Plan is designed to offer an employer a cost effective way of providing life cover for the benefit of the employee's family or financial dependents.

Executive Income Protection is designed to offer a cost effective way of providing a business funded sick plan for its employees. These can be tax efficient for both the employer and employee, as long as they meet certain legislative requirements.

	RELEVANT LIFE PLAN	EXECUTIVE INCOME PROTECTION
ELIGIBILITY/SET UP	Employees (which includes salaried partners) of a Partnership, Limited Liability Partnership, Sole Trader and Charities.	Employees (which includes salaried partners) of a Partnership, Limited Liability Partnership, Sole Trader and Charities.
DOCUMENTS REQUIRED	Relevant Life Plan application and Trust form to Legal & General RLP Nomination form to Employer (Trustee).	Application only.
SETTLOR OF TRUST – PLAN OWNER	The principal employer (Company, the Partners of the Partnership, LLP, Sole Trader and the employers/trustees of a Charity).	The principal employer (Company, the Partners of the Partnership, LLP, Sole Trader and the employers/trustees of a Charity).
TRUSTEE	The principal employer is automatically a trustee. But the employee is not. Up to three further trustees can be appointed, one of which can be the employee.	N/A
BENEFICIARIES OF TRUST	The employee (so they can benefit in the event of a terminal illness claim), Spouse, Registered Civil Partner, widow, widower, or surviving registered civil partner of the employee, Any child or grandchild of the employee whenever born (including stepchildren).	The proceeds are paid to the policy owner (principle employer) who in turn would pay the employee via payroll.
TAX ON INDIVIDUAL	No P11d benefit therefore no Income Tax or National Insurance liabilities.	No P11d benefit therefore no Income Tax or National Insurance liabilities.
TAX ON BUSINESS	Premiums may be treated as a business expense and claimed against Corporation Tax as long as the wholly and exclusively rules are met*.	Premiums may be treated as a business expense and claimed against Corporation Tax as long as the wholly and exclusively rules are met*.

*We recommend that the employer (normally through their accountant) checks with their local inspector of taxes to gain comfort for their own particular circumstances.

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