

Peter O’Sullivan, head of Tenon Financial Services, highlights an area of financial planning that is often overlooked – business protection.

# protect your business against the unforeseen



■ People in business generally accept that they need to insure their material business assets such as buildings, contents and vehicles against a range of mishaps, for example, fire, theft and accidental damage. But many businesses often overlook the fact that success also depends on a number of key individuals, and that the business needs to be protected against the loss of these individuals.

## Keyman insurance

A key person may be someone who brings money into the business, someone who has specialist skills and knowledge or someone that the business depends on for loan finance. But, what happens if a company director has a heart attack, the business owner goes blind or your top salesperson dies?

If one of your key employees becomes critically ill or dies, Keyman insurance is designed to compensate the business for the financial loss of the employee by providing a lump sum to help ease cash flow.

Once you have identified who your key employees are, you will need to consider how much you should insure the person for. To do this you should think about:

- the effect on profits if the person were to die or become disabled
- the cost of recruiting and training a replacement
- loans that could be recalled on the person’s death or disability.

There are different methods of calculating the policy’s sum insured but they will generally consider the person’s salary, annual profit and the amount of time it would take to replace them.

There is no direct legislation around the taxation of keyman insurance, but it is generally accepted that, should the premiums qualify for tax relief, it is likely that the benefits will be treated as a trading receipt. If the key person has a shareholding of 5% or more, then tax

relief is unlikely to be granted on the premium as the policy is partly for the assured’s own benefit.

The benefit paid out can offer invaluable help in tiding the company over a period of reduced income, or it can be used to fund a temporary replacement to maintain performance.

## share protection

Share protection protects the interests of co-owners and family members in the event of a death. Each co-owner agrees how much their share is worth, and a combination of insurance policies and legal documents are put in place to ensure that, should anything happen, the co-owners are able to buy out the family of the deceased for a fair value.

Share protection agreements are important, particularly if you would like control of the business to remain within the business. It can help prevent:

- company shares passing under will or intestacy to people who are not suitable or interested in running the business
- the shareholding becoming fragmented if shares are left to a number of beneficiaries
- a change in the balance of control of a business
- a forced sale or takeover from a competitor if the remaining co-owners don’t have sufficient funds to acquire the shareholding.

Life assurance can ensure that funds are available at the right time benefiting both the deceased’s estate and the remaining shareholders. The details can be technical and may depend on pre-existing partnership agreements or incorporation documents, but if you want to retain control of the business, it’s an important area to consider.

The death or disability of a key person can result in a loss of part of your knowledge base, damage your credit status or relationships with

customers and suppliers. The death of a co-owner could see you losing part control of your business which may cause banks and investors to lose confidence.

Business protection is a key area of financial planning and should not be overlooked.

For further information or to find a Tenon Financial Services adviser in your area, email [financialservices@tenongroup.com](mailto:financialservices@tenongroup.com). ■

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