

Business Protection for SMEs

Essential Risk Management

There's never been a more important time for business owners to consider buying business protection as part of its **risk management**.

While larger businesses are likely to have well-developed succession plans, smaller businesses will be more vulnerable should they lose the services of a key person or be presented with business loans through death or a critical illness.

Unfortunately, while most businesses today make sure their assets are covered against the effects of fire, theft or flood, **protection of their most important assets: their owners and key people is often overlooked**. Protecting equipment ahead of staff could be a mistake.

It's the people who create the profits in a business, through their entrepreneurship, knowledge, skills and contacts. Having adequate cover ensures the business will have access to enough funds to enable it to continue trading by replacing key people and lost income, or managing business liabilities, such as paying off creditors and repaying bank loans.

*"You can take my factories, blow up my buildings,
but give me my people and
I will build my business right up again."*

Henry Ford

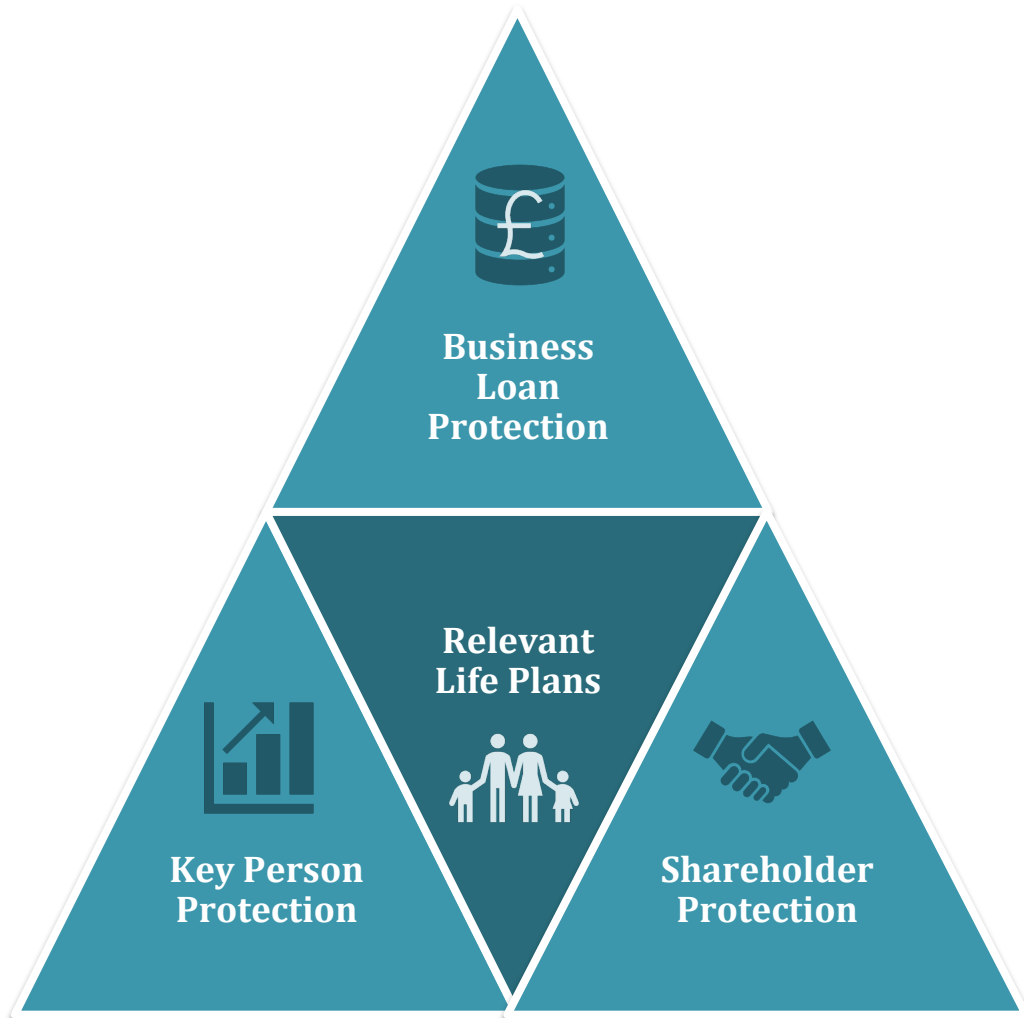
Safeguard three core business elements:

- ① **Debt** –if a business was to lose a key person, the money paid by the policy can be used to clear loans or other debt. The proceeds from Key Person cover can be used to simply clear that business debt.
- ② **Profit** - If a business loses a key person who has a big influence on revenue and profits, the policy gives the company a cash injection, helping replace lost profits and possibly recruit a replacement. Profit can be protected by Key Person cover.
- ③ **Ownership** - If a partner or shareholder dies or is diagnosed with a critical illness, the proceeds of the policy will help the remaining owners buy the affected individual's share of the business. Without that protection in place, the surviving owners could lose control of their business, impacting its ongoing success. Shareholder or Partnership Protection can protect ownership.

Business Loan Protection

- Repayment of unprotected loans or debts following the death of key personnel

- Does the business have any unprotected loans or debts?
- How would you repay these following the death of key personnel who has guaranteed the loan?
- Do you need to expose your personal wealth to this level of risk?
- Would an insurance policy be a simpler solution?



Key Person Protection

- Key individuals whose absence would affect the successful running of the business or impact profits

- Identify and assess key people
- Agree how to value their contribution and replacement

Shareholder / Partnership Protection

- All businesses should have a plan in place detailing what would happen on the death, disability, or critical illness of an owner

- Business succession planning protects the shareholders and partners, their families, their employees, and the business
- Creates a guaranteed marketplace for the deceased's share of the business
- Ensuring that the beneficiaries receive fair pre-agreed value for their shares and the surviving owners have the money available to purchase those shares

Relevant Life Plans

A Relevant Life Plan is a tax efficient personal life insurance policy

Relevant Life Plans



Although 69%¹ of SMEs have never heard of Relevant Life Plans they are in high growth adoption.

Relevant Life Plans are considered as Business Protection, but it's actually **death in service (DIS) life cover for employees**. The life insurance is taken out and paid for by the employer on the life of an employee, and then placed in trust. They are **highly tax efficient** as unlike group schemes they are usually considered a business expense. A Relevant Life Plan can be used to cover company directors and those who own their own business, provided it is registered as a company in the UK and they take a PAYE salary from the enterprise. Additionally they are an excellent way to recruit and retain staff through good employee benefits.

It is also possible to take out Relevant Life Plans with the inclusion of employee significant illness benefit.

- HM Revenue & Customs (HMRC) treats the premiums as an allowable business expense, so the business would qualify for Corporation Tax relief
- As the company pays the premiums into a Relevant Life Policy, they're usually considered to be allowable deductions and not benefits in kind
- There's no National Insurance or Income Tax liability on the premiums for you and your employees
- It offers financial protection for the employee's spouse, partner or dependents, paying out a tax-free cash lump sum if the employee dies or is diagnosed with a terminal illness during the policy's term
- Ideal for a small business without enough employees to set up a group life scheme
- Can provide death in service (DIS) benefits to employees that exceed those payable under the main company scheme
- Employees that have substantial pension funds and don't want their death in service benefits to form part of their pension lifetime allowance, or for premiums to impact their protection from the lifetime allowance

Who may it be appropriate for?

Company A

- 8 employees
- 1 director
- This would generally be too small to set up a Group Death In Service (GDIS) scheme and so a Relevant Life solution for all may be the best solution

Company B

- 1 man Limited Company
- Suitable for Relevant Life assuming there is an employer/employee relationship

Company C

- 300 employees
- 4 directors, HR, Operations, Finance and Company secretary
- 200 shop floor workers
- 100 office staff
- Currently they have a GDIS scheme for the 100 office staff
- This firm may want to put in place a bespoke arrangement for the 4 key directors providing a greater benefit

Are you concerned about exceeding the Lifetime Allowance?
A Relevant Life Policy could provide the solution you seek, as its life cover won't form part of your lifetime allowance. And remember, as your company pays the premiums, HMRC usually considers them as an allowable deduction, and not benefits in kind.

Potential Savings (Illustration)

If you compare the cost of buying life assurance from an employees taxed income compared to that of the company paying for a relevant life plan, the benefits are clear to see

	Non-Relevant Life Plan policy	Relevant Life Plan
Annual Premium	£1,000	£1,000
Employee National Insurance Contribution (assuming 2%)	£34.48	None
Income tax (assuming 40%)	£689.65	None
Dividend tax	None	None
Gross earnings needed	£1,724.13	£1,000
Employer national insurance contribution (assuming 13.8%)	£237.93	None
Total gross cost	£1,962.06	£1,000
Less corporation tax (assuming 19%)	£372.79	£190
Tax-adjusted total cost	£1,589.27	£810

A saving of £779.27, which is a saving of almost 50%

References

¹Legal and General Group PLC (2019), Business Protection State of the Nation's SMEs Report 6th Edition

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