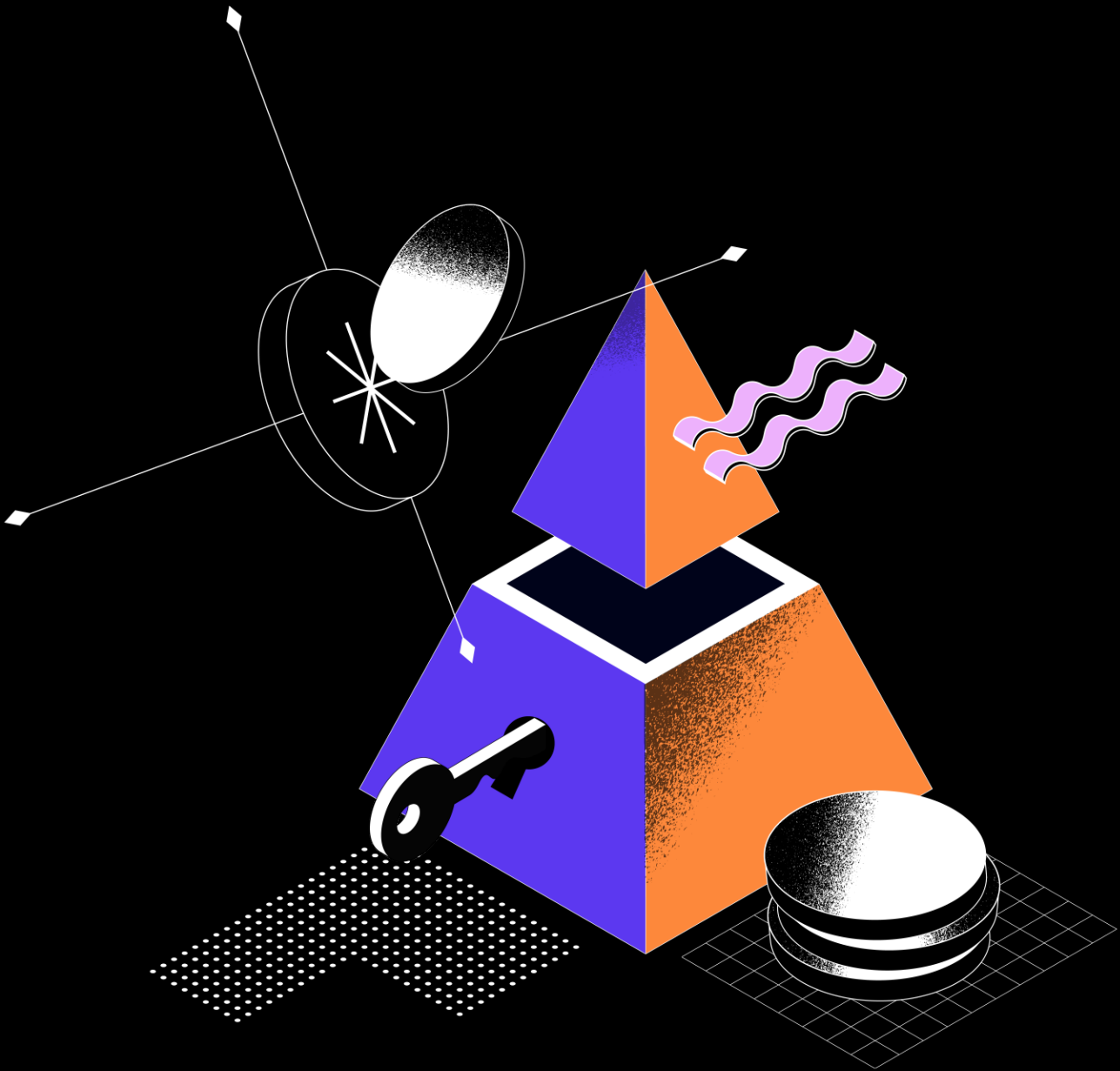


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Safeguard Your Business

Tax-Efficient Protection Strategies



Tax-Efficient Protection Strategies

Understanding the Risks

In the dynamic world of business, unforeseen events can pose significant threats to both financial stability and operational continuity. Without appropriate protection mechanisms, companies may face:

Tax risks

1. **Personal Financial Exposure:** In the UK, directors can be held personally liable for a company's unpaid taxes, such as PAYE and VAT, especially if the business becomes insolvent.
2. **Loss of Corporation Tax Relief:** Relevant Life Insurance premiums are typically tax-deductible for employers when policies are set up exclusively for business purposes. Without such policies, businesses miss out on this relief, leading to higher taxable profits.
3. **Increased National Insurance Contributions:** Relevant Life policies are not treated as a Benefit in Kind, meaning neither the employer nor the employee pays National Insurance on the premiums. Without this arrangement, companies may incur additional National Insurance costs.
4. **Inheritance Tax Implications:** Payouts from Relevant Life policies are usually placed in a discretionary trust, keeping them outside the employee's estate and free from inheritance tax. Without this setup, beneficiaries might face substantial inheritance tax liabilities.
5. **Increased Financial Strain:** The sudden loss of a key person can lead to decreased revenue and increased expenses, such as recruitment and training costs. Without Key Person insurance, the business must absorb these costs, potentially leading to cash flow issues.
6. **Reduced Business Stability:** If a shareholder passes away or becomes critically ill it can impact a business' stability with shares potentially passed on to an unknown relative. However, with a Shareholder Protection policy in place you're guaranteed a smooth transfer of shares to the remaining shareholders. Plus, when structured correctly, the payout can be free from income tax and may be arranged to minimise inheritance tax implications.



Source: *Legal And General 13/08/2019, One in four of uk SMEs would close immediately after losing a key person

** FT Adviser 2017/09/27, Cost of being caught without business protection

Business Continuity and Operational Risks

1. **Operational Disruption:** The sudden loss of a key individual can severely disrupt business operations, leading to delays, reduced productivity, and potential loss of clients.
2. **Financial Strain:** Key Person Insurance provides a financial cushion to cover losses or expenses incurred due to the absence of a crucial team member. Without it, businesses may struggle to manage unforeseen costs.
3. **Loss of Critical Skills and Knowledge:** Key individuals often possess unique skills and institutional knowledge. Their absence can disrupt operations, delay projects, and affect product or service quality.
4. **Fiscal Stability:** Ensuring that outstanding business loans are repaid if a key individual dies or becomes critically ill is crucial. Having Business Loan Protection in place prevents the need to divert funds from operations or personal assets to repay debts.
5. **Damaged Client and Supplier Relationships:** Key persons often maintain vital relationships. Their loss can lead to decreased client confidence and strained supplier relations, potentially resulting in lost contracts or unfavourable terms.
6. **Challenges in Securing Financing:** Lenders and investors may view the absence of Key Person insurance as a risk, making it harder to secure loans or attract investment. Some lenders may even require such insurance as a condition for financing.
7. **Employee Morale and Retention Issues:** The sudden loss of a key figure can lead to uncertainty among staff, affecting morale and increasing turnover, which further disrupts operations.

87% of failed businesses said Key Person insurance could have kept them trading.**



Protect What Drives Your Business Forward

Key Person Insurance isn't just risk management—it's a strategic move. Losing a key individual can disrupt cash flow, halt operations, and threaten your company's future. The right protection keeps your business resilient, stable, and financially secure.

Contact your Broadbench adviser to tailor a solution that protects your people—and your success.