



Shareholder Protection

General Guide



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Succession Planning

It's one thing to plan who will own and run your business in the future when you retire or exit from your business, it's another thing to plan what would happen if a shareholder dies.

Just as an individual should have a will that sets out what will happen to their estate on death, your business should have a 'Corporate Will' that sets out what happens if a shareholder dies. Unless the correct agreements are in place to specify what happens to the shares following death, your wishes (as the business owner) may not be met.

In May 2015 Legal & General research revealed:-

- Over 50% of businesses have left no instructions in a will or any special arrangements regarding shares
- 26% of limited companies have not reviewed their Articles of Association since the business started

What is it?

In the event of a shareholder dying, falling terminally or critically ill, Shareholder Protection can provide a sum of money to the remaining shareholders. This means that in the event of a valid claim the policy could pay out an amount sufficient to purchase the deceased or critically ill shareholder's interest in the business.

Why Do I Need It?

The loss of a shareholder, particularly if they are a working director, may destabilise the business and can quickly lead to financial difficulties. Shareholder Protection means if the worst does happen, the remaining shareholders can stay in control of the business.

If critical illness is covered, the critically ill shareholder will have the choice to exit the business and receive their share as a lump sum payment.

How Much Do I Cover?

How much are your shares worth? A difficult question to answer, but a valuation method needs to be established, probably with the assistance of your accountant.

Who takes out the policy?

I would expect to work with your professional advisers to make sure any advice I give doesn't go off at a tangent to what your accountant or solicitor would recommend. There are different ways of providing Shareholder Protection and a lot will depend on what your Company's Articles of Association stipulate.

A common arrangement is where each shareholder takes out cover held in trust for the remaining shareholders(s)



and has what is known as a cross option agreement drawn up by solicitors. Your accountant should be involved to make sure that business property relief isn't lost.

Many accountants prefer a Company Share Buyback Scheme. On the death of a shareholder (if the Articles of Association allows for this) the business will repurchase the available shares from the estate of the deceased shareholder. The business takes out the insurance. On buying the shares they are then cancelled, which increases the value of the remaining shares.

What about tax?

It always seems complicated. It is important, so normally we work with your other professional advisers to make sure the cover is set up in the right way for your business. Plans to cover company ownership will not meet the criteria for relief from corporation tax on the premiums. Therefore payment of the sum assured for a term assurance plan should not be classed as a trading receipt and so is unlikely to suffer corporation tax.

Rest assured we will explain what actions you need to take, but we would normally refer you to your accountant for tax advice.

What about health?

Expect to fill in a medical questionnaire and the insurer to ask your GP for a report. In many cases you will be asked to attend a full medical. These are normally paid for by the insurer. If you have any existing medical conditions or have suffered any in the past it's your duty to disclose them. Don't be put off considering cover; we will talk to the underwriters. Many people will have (or will have had) similar conditions; the underwriters have lots of experience in dealing with most of what can affect us.

Summary

You'll be surprised how little Shareholder Protection can cost for a very large sum assured. We'll make sure a solution fits your budget.

Give me a call on **01822 855 555**.

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