Case Study

Shareholder Protection

Scenario

ABC Limited is run by four directors who each have a 25% shareholding in the company. The business is valued at c.£12 million. The directors have confirmed that they will likely remain with the company for at least the next 10 years. The directors have explained that they wish to ensure they will retain control of the business should one of them pass away.

Solution

We arranged four separate Life Insurance policies to cover each director as follows:

Life Assured	Director
Policy Owner	The policy is written under a Business Trust arrangement*
Sum Assured	£3,000,000 Life Insurance.(Based on the value of each individual shareholding)
Term	10 years (Term until the directors expect to remain with the company)
Monthly Premium	Subject to medical underwriting

* There are other options available to structure the plan which can be used depending on the client circumstances and preference.

mha
CAVES WEALTH

Results

By setting up a Business Trust arrangement, the remaining shareholders can receive the funds from the Trust to buy the shares from the deceased shareholders beneficiaries, ensuring they retain control of the company.

Additional Notes

A shareholder agreement called a cross option agreement will be arranged at outset which will give the existing shareholders the option to purchase the shares from the personal representatives. By structuring the agreement in this way, it ensures that any potential Business Property Relief that may have been applicable to the company will be retained.

Care should be taken with regards to setting up the Trust, when structuring the cross-option agreement and when writing the Wills. We therefore always recommend that this is done in consultation with a solicitor.

Each individual usually pays the premiums for the policies they take out for Shareholder Protection on their own life. This means they do not benefit from any tax reliefs. If the premiums are paid by the business on behalf of a shareholder, they will not be classed as a deductible business expense if the life assured is a 'substantial' shareholder.

There is no income tax liability on the proceeds in the event of a claim. Benefits paid from a life assurance policy are not subject to capital gains tax. As the company does not receive the funds they are not treated as a trading receipt for tax. Inheritance Tax can be avoided by placing the policy subject to a suitable Business Trust.

Potential Risks and Disadvantages

- Protection plans may expire on either a claim being made or at the end of the term if not renewed. If the policies reach the end of the term and no claim is made, there will be no benefits paid to you nor will there be a surrender value.
- If there are guaranteed premiums, once the plans are in force you will be unable to alter this.
- Underwriting terms may be applied which could increase your premium and/or discount certain conditions covered within your policy, from that covered in the Key Features Document.
- If you do not cancel your policy within the cancellation period, you may not receive a refund on your premiums paid up to this point.
- If you stop paying your premiums, your cover will stop.
- The premiums quoted may increase after medical underwriting or the level of cover offered by the insurance company could be reduced.
- If the policies being taken out are on a level basis, over time the benefit which would be received would be reduced in real terms due to the effect of inflation and could be insufficient to carry out any work required to your property or pay for treatment.
- After medical underwriting there may, be certain common conditions that will be excluded from your plan depending on your medical history.
- There is no guarantee that the new cover will be underwritten on similar terms to that of your existing cover.
- Any benefit pay out may be liable for corporation tax, reducing the total payout you may receive.

Specific to Protection Plans

- If any relevant information provided has not been disclosed accurately and honestly, this could result in any cover offered becoming invalid and may result in the non-payment of any future claims.
- It is important to regularly review your levels of cover to ensure that they remain suitable to meet your needs.
- There is no guarantee that the level of cover being applied for will be offered by the provider.
- There may be certain circumstances when the terminal illness payment will not be paid, please refer to your key features document for more information.
- There may be restrictions to your policies with regards to travel or residency. Please refer to your key features document for further details.
- After medical underwriting, your premiums may increase from those quoted within this report as these have been provided for illustrative purposes only.
- If you cancel after the first 30 days of the policy, you will not receive a refund on your premiums.
- If you cancel your policy whilst a claim is being made you may not receive a pay-out.
- Applying for the same level of cover may increase in the future.

mhacaves.co.uk

T: 01604 621 421

Head Office:
Lockgates House, Rushmills,
Northampton, NN4 7YB

Now, for tomorrow

mha
CAVES WEALTH