

FIRST FINANCIAL

Business Planning

Creating Wealth

Protecting Assets ...



If you are a business owner, you are faced with a range of important issues. Here are just a few:

- How do you extract your profits in the most tax-efficient way?
- What is the most effective way to reward and motivate employees?
- How should you make sure that you can afford to retire?
- To whom will you pass on the business when you retire?
- How will you finance expansion?
- What would happen to the business if you (or your co-owner) were to die or fall seriously ill?

Tax rules are subject to change. The FSA does not regulate tax advice.

The need for business insurance

Owning a business can be a very rewarding experience, but what happens if a business owner dies or falls seriously ill? Much will depend on the type of business – sole trader, partnership or limited company – but unless there has been some advance planning, the chances are that what remains may end up in the wrong hands.

So if you are a business owner, business insurance is important – it is simply the process of planning for what you want to happen if you or your co-owner (if you have one) die or fall seriously ill.

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What happens when a business owner dies?

What happens when a business owner dies depends on the type of business:

- A sole trader business automatically comes to an end. The business may still have a value – stock, buildings, or assets such as equipment and vehicles and goodwill, but the business itself will legally cease.
- A partnership may come to an end if the partnership agreement does not set out that the business should continue.
- A limited company continues but the shares held by the business owner will pass on to beneficiaries through the estate.

Serious illness

It is not just the death of a business owner that can stop a business. If a business owner suffers a critical illness such as a heart attack or cancer, it may not be possible to continue in the business either temporarily or permanently.

A suitable critical illness insurance policy is probably the best way to provide protection against the financial consequences of having a serious illness. These policies pay a cash lump sum on diagnosis of a specified critical illness or disability.

The policies are normally written in trust for the other business owners, and there needs to be an agreement between the business owners about the circumstances in which the share in the business should be transferred. This is one of those situations in which an experienced and expert adviser can be very valuable.

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What else do I need to know?

When we advise clients about business insurance and succession planning, we start by finding out the most important issues in the specific case. Once these have been identified and prioritised, we can then recommend a suitable way forward.

In doing so, we will advise on:

- The options available.
- Their costs.
- Tax implications.
- Methods of valuing the business.

The death or critical illness of a business owner can lead to unexpected or undesirable consequences for those left behind. Taking the opportunity – well in advance of such an event happening – to plan for such a situation can help crystallise what you want to happen to your business after your death, and to identify how best to ensure that this will actually come about.

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