

Business Protection

## Helping you protect your business clients

For UK financial advisers only



**LIVE**  
PROTECTION

## Business Protection

# Helping you protect your business clients

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## Why Business Protection?

The most valuable asset to any business is its people, as without them, a company's survival can be at serious risk. At LV=, we're committed to protecting and supporting UK enterprise, through a range of Business Protection products which are easy to recommend, and offer quality support when it's needed most.

Our fresh approach to Business Protection will help you maximise the opportunity. Our experienced team are here to support you and your Business Protection portfolio; whether it's answering technical questions, pre-sales advice or marketing ideas and support. With a little time (and support from us) we're certain Business Protection will become a valuable part of your own business if it isn't already. You may even find this type of cover easier than some personal protection cases!

### How does business protection work

Protecting people should be an integral part of any business plan. Business owners already protect many of the important things that keep the business running smoothly, like property, fleets and stock. So they should also insure their most valuable assets: their staff and shareholders.

# Why choose LV=?

- Free business legal adviser and tax and VAT advice for your clients
- The insured gets access to LV= Doctor Services
- Personal advice line for all policy owners and people insured, offering access to lawyers, health and wellbeing advice, and counselling
- Expert sales support, helping you to get started and tackle those trickier cases
- Dedicated Business Protection underwriters – each application will be treated with the highest priority
- Our Critical Illness cover for business covers 87\* conditions, including 49 full payments, 38 additional payments and 17 unique enhanced claim payment conditions\*\*. Children's Cover is included as standard and covers 85 conditions
- We offer Executive Income Protection alongside Relevant Life Cover; two tax-efficient policies, only one application
- Online tools and easy-to-understand client literature to support your recommendation
- Our online quote and apply system, Fastway, provides instant decisions and partially underwritten quotes
- Our online trust tool will help you to write your client's policy in trust and make sure the right trust is in place

\* 20 of these conditions are covered under 1 additional payment condition – 'Less advanced cancers'. \*\* With our enhanced claim payment, we'll pay your client twice their original amount of cover, up to a maximum of £200,000 on top of their cover, if their claim meets one of the 17 definitions listed.

## Business Protection Team

### Underwriters

All cases you send to us are important, but we understand Business Protection requires specialist support. So we'll offer you our dedicated team of underwriters for each submitted LV= Business Protection case. The team will:

- Offer pre-sales support, meaning right at the start of the sales process you can clarify any questions you or your client may have. This can significantly speed up the application.
- Operate a piecemeal underwriting service and action each piece of evidence as and when it arrives. We'll aim to review cases on the same day (or within 24 hours) and update you throughout the application process.
- Go that extra mile to make sure your client gets covered, as quickly as possible. For example, if your client needs to see a medical professional but can't take time off work to see their GP, we could send a nurse to visit them at home.

### Technical support

If you have a business protection question and can't find the answer on our website, you can email us your query and we'll aim to reply within 24 hours. We also provide specimen cross option agreements as well as trust forms for you to use. Alternatively, we will accept bespoke arrangements drawn up by a solicitor, which can be a better option – especially if your client's circumstances are complex.

### Webinars and sales training

Our Business Protection team offer webinar training to help you expand your business. They can also help you network and find new opportunities, as well as advise you on how to cross-sell against your existing personal protection client base. You can also use our interactive tools and calculators to work out the amount of cover your client needs, as well as the real health risk to business owners and their key people.

### Marketing

We've developed a range of jargon-free sales aids and easy-to-understand client brochures to help you effectively introduce Business Protection to your clients.

### Online Trust tool

Our Online Trust tool is available for you to use on all our protection policies. You will be asked a few basic questions about your clients circumstances, then based on your answers, the tool will provide you with the most appropriate of our in-house trust deeds. Please bear in mind that the tool doesn't provide advice, and the trust deed selected by the tool may not always be appropriate for your clients circumstances. So please make sure that the trust selected is right for your client and their specific needs. If you cannot access the Online Trust tool, paper trust forms will be available.

\* General insurance products are offered by Liverpool Victoria General Insurance group, a subsidiary of Allianz Holdings plc

# LV= Business Care and LV= Doctor Services

**Once your client takes out LV= Business Protection, they'll have access to LV= Business Care, our free business advice service. LV= Business Care consists of legal advice, and tax and VAT advice for your small business clients.**

## Business legal advice line

We've partnered with a firm of solicitors to offer you free business legal advice. This service includes advice on a number of commercial issues, including:

- employment law
- health and safety issue
- commercial risks
- advice on contracts

## Business tax and VAT advice line

Our value added services also provides access to tax and VAT experts, including accountants and ex HMRC employees. It covers areas like:

- tax and VAT relief
- self-assessment returns
- changes to tax and VAT rules
- dividends paid from limited companies

## Personal Legal Advice Line

Our free Legal Advice Line is run by a team of legal advisers who can talk to you about your rights and how to deal with various legal situations. You can get advice on a number of areas including general law, property related issues, wills and probate and family law.

The helplines are available as soon as your clients policy starts.

LV= Business Care is provided by third party companies. This service is not regulated by the Financial Conduct Authority or the Prudential Regulation Authority.

When your business client takes out this policy they can opt to be a member of LV=. Being a member means they will have access to a range of benefits designed them, their family and their life. It's our way of saying thank you for choosing us. All the benefits can be found at [LV.com/benefits](https://lv.com/benefits). We review the benefits from time-to-time so they may change or be removed in the future. Membership is only available to the policy owner, and the life insured won't become a member.

**To help show how our advice lines could be used, here are two examples of how your client might use both the legal, and tax advice lines.**

## Business legal advice example

based on a small business without a dedicated human resource department.

**Rachel (Business Owner) and Adam (Cafe Manager)** – Rachel runs a large cafe bistro with 10 employees including a cafe manager called Adam. One of the younger female members of the team complains to Rachel about Adam regarding his constant use of offensive language towards her.

### Scenario 1 – Rachel calls the LV= Business Care line and is put through to an employment law specialist.

- Rachel carries out an investigation and suspends Adam for the duration.
- She conducts interviews and records the evidence.
- She has a disciplinary meeting with Adam to discuss the evidence.
- Adam's rights were not infringed. This led to a smooth dismissal.

### Scenario 2 – Rachel doesn't seek legal advice and fires Adam.

- No investigation is made or the correct procedures followed.
- Adam takes the business to a tribunal for unfair dismissal.
- The tribunal decides in favour of Adam and is awarded damages of £12,000.

## Tax and VAT example

based on a company looking to sell their products in France and are unsure about the way in which VAT should be paid and accounted for.

**Smith Textiles Ltd** – Smith Textiles Ltd enter negotiations to start selling their high end window covers to a company in France. This is the first time they are dispatching any of their products outside of the UK and are unsure about the way in which VAT should be paid and accounted for.

### Scenario 1 – Smith Textiles Ltd contact the LV= Business Care helpline and speak to a qualified VAT specialist.

- The VAT specialist confirms the VAT rules for selling goods to other EU countries.
- They also confirm how this should be recorded on the VAT return and other reporting requirements.
- Smith Textiles Ltd are confident to proceed with selling abroad.

### Scenario 2 – Smith Textiles Ltd don't contact the LV= Business Care helpline.

- Smith Textiles Ltd don't feel confident selling abroad.
- They pay extra for a new accountant with specialist knowledge.



## LV= Doctor Services

Once your client has taken out business protection with us, the insured employee and their spouse or partner (providing they live at the same address) can use LV= Doctor Services. This provides fast, convenient access to UK based doctors and medical specialists through six expert medical services:

- 24/7 remote GP
- Second opinion service
- Prescription service
- Remote physiotherapy service\* (x5)
- Remote psychological services\* (x5)
- Discounted health MOTs

The six services are provided by our partner, Square Health and accessed via one simple app or phone call. This helps the life insured to keep their own health in check whatever their medical concern and wherever they are - at home, at work, or away on holiday.

LV= Doctor Services is a non-contractual benefit and can be changed or removed at any time.

LV= Doctor Services is provided by Square Health Limited. This service is not regulated by the Financial Conduct Authority or the Prudential Regulation Authority.

\* These services are capped at 5 sessions and are shared between the insured employee and their spouse/partner.

## Business Protection – the basics

**Business Protection (sometimes called Business Interruption Insurance) helps safeguard a company's financial future against the unexpected loss of a business owner or key person.**

In short, Business Protection is simply life insurance (which can also include critical illness cover) written on the life of either someone crucial to the firm's profits, or one or more business owner.

Business Protection is often perceived as complicated, but the reasons for having it are no different to personal protection – business owners just have different needs.

### An easy way to position Business Protection with your clients

To keep things simple, think of Business Protection as a type of cover which safeguards three core business elements:

**Ownership** – If a partner or shareholder dies or is diagnosed with a critical illness, the proceeds help the remaining owners buy the affected individual's share of the business. Without protection, the surviving owners could lose control of the business, impacting ongoing success.

**Profit** – If a business loses a key person who influences revenue, the policy gives the company a cash injection, helping replace lost profits and possibly recruit a replacement.

**Debt** – If the business loses a key person, the money paid by the policy can be used to clear loans or other debt. Without a cash injection, investors and creditors (like the bank) may call in debts as they're no longer confident the business can keep on top of them.

## Relevant Life cover

Relevant Life cover is often referred to as a type of Business Protection but it's actually a tax-efficient life insurance policy, allowing companies to offer death-in-service benefits to their staff.

## Executive Income Protection

As with Relevant Life Cover, this is often included as a type of Business Protection product but it's actually a tax-efficient income protection policy designed for small to medium businesses. It's set up by an employer on the life of an employee, and if that employee is unable to work due to illness or injury, Executive Income Protection covers the cost of employee sick pay and, if selected, the employer's National Insurance and pension scheme contributions.

**This brochure helps explain the different types of Business Protection available from LV= and which clients might be suitable.**

Although it can seem complicated (especially if you're new to the market), Business Protection does offer a lucrative revenue stream, so is definitely worth considering.

### LV= offers two Business Protection policies:

- Life Insurance
- Life Insurance plus Critical Illness cover

**They can be used for the main types of Business Protection:**

| Cover type                   | Risk covered |      |           |
|------------------------------|--------------|------|-----------|
|                              | Profit       | Debt | Ownership |
| Key Person Cover             | ✓            | ✓    | ✗         |
| Share/Partnership Protection | ✗            | ✗    | ✓         |

# Helping you understand your target audience

**Business Protection has been designed for small and medium-sized businesses (SMEs). It's important to understand the different legal structures for business as this will determine how you write the cover.**

## **Sole traders (or the self-employed)**

- The simplest type of business: one person owns and controls the company.
- A sole trader is self-employed, although they may employ other people.
- Sole traders don't publish annual accounts and are taxed through self-assessment (so don't pay corporation tax).
- The sole trader keeps all the profits (after tax) and is personally responsible for any business debt.
- This is called 'unlimited liability' and means any debt is passed onto the sole trader's next of kin if they die.
- Many successful businesses start in this way.

## **Traditional or ordinary partnerships**

- This is a business owned by more than one person (the 'partners').
- The partners usually run the business.
- Partnerships don't have to register with Companies House and partners are taxed via self-assessment.
- Unlimited liability applies; the partners are personally responsible for all debts and should understand their responsibilities to each other.

## **Limited liability partnerships**

- Unlike traditional or normal partnerships, the owners of the business (partners) aren't personally responsible for debts the business can't pay.
- Instead, the partner's liability is limited to the amount of money they invest in the business.
- Limited liability partnerships must be registered with Companies House and publish annual accounts.
- This type of business is becoming increasingly popular amongst professional practices, like accountants and solicitors.

## **Limited companies**

- This type of business is owned by shareholders and is run by directors.
- Shareholders can also be directors.
- Limited companies must be registered with Companies House and publish annual accounts.
- Unlike sole traders and traditional partnerships, this type of company has limited liability (the owners are not personally liable for the company's debt).
- Limited companies operate across all industries.

**The type of Business Protection you recommend will depend on the company's legal structure and whether or not it has key people that need to be protected. Executive Income Protection can usually only be taken out by limited liability partnerships or limited companies. We recommend you establish the legal structure early in the advice process.**

### **What is a small and medium-sized business (SME)?**

A SME is typically any business with less than 250 employees. They make up more than 99% of UK private sector businesses\*, so your client base is potentially endless.

\* Dept for Business, Energy & Industrial Strategy: Business population estimates for the UK and regions 2023.

# Quick guide: Key Person cover

**This cover provides a financial safety net in the event a key member of staff dies or is diagnosed with a critical illness. The claim is paid directly back to the company or partners, helping trading continue as normally as possible.**

## Who is a 'key person'?

This is any member of staff who has a direct impact on the business's profits. It could be the business owner, director, sales person or any employee with specialist skills or expertise. Key Person cover is sometimes referred to as 'key man insurance'.

## How to position Key Person cover with clients: protecting profit

Losing a key person can be disastrous for the long-term survival of a business. Although clients can't predict the future, Key Person cover can protect against the following business risks.

- The sudden loss of a key employee can leave a business without vital skills or knowledge. The money paid under the policy could help cover expensive recruitment costs, replace lost profits or pay penalties due to the non-delivery of goods and services.
- If an employee suffers a critical illness (like a stroke) the business might be contracted to continue paying their salary whilst the key person is recovering (in addition to a temporary replacement). Key Person cover can be used to continue paying this unexpected business cost.

## How to position Key Person cover with clients: covering debt

- Many businesses have to borrow money to start up or expand, and the ability to repay a loan could be impacted by the loss of a key person.
- Debt can include a business overdraft.
- Additionally, directors may loan the company money (known as a director's loan account) via undrawn salary, dividends, or actual loaned money. This would need to be repaid if the director died or took early retirement (because of a serious illness).
- The proceeds can be used to repay debt and satisfy nervous banks, investors or suppliers essential to the survival of a business.
- Key Person cover can protect sole traders who are personally liable for business debt. If they died, any debt would be inherited by their next of kin.

Due to tax implications, separate policies should be set up to protect profit and ensure debts can be paid.

## Top tip

If you are new to Business Protection, visit your back book of personal protection clients to identify those that are self-employed; a quick review call should help you access whether or not they have Key Person cover in place.

# Key Person cover: tax treatment (proceeds and premiums)

**Business owners are keen to understand the tax treatment of Key Person premiums and proceeds, although the rules aren't always straightforward.**

HM Revenue & Customs (HMRC) provide guidelines helping establish whether your client will receive tax relief on the premiums, and if the proceeds would be treated as a trading income.

## Premium tax treatment

The guidelines were first laid out in 1944 by the then Chancellor of the Exchequer, Sir John Anderson and are known as 'The Anderson Rules'. Broadly speaking, tax relief may be given on the premiums if:

- The life insured is an employee (or sub shareholder with a share of less than 5%) and
- The insurance is intended to protect profit (not debt) and
- The policy is annual or short-term\*.

## Proceeds tax treatment

Generally, if tax relief is given on the premiums then the proceeds will be taxed, however this may not always be the case. Under the Anderson guidelines (BIM 45525) HMRC state 'no assurance can be given that any future receipt will be excluded from trading income even though the premiums are not allowable'. In short, if the cover is set-up to protect profits, HMRC consider the proceeds as usual business profits or trading receipts.]

Your client's accountant, in consultation with the local inspector of taxes, should advise them on whether or not any premiums qualify for corporate tax relief – tax relief should not be a priority when putting cover in place. The purpose of Key Person cover is to protect business profits or debts against the unexpected loss of a key person.

\* In BIM45525, HMRC clarified this by confirming that in order to qualify the policy should only be in force for as long as the key person is crucial to the business. For example, if the key person is a project manager in charge of a project lasting eight years, the policy would be written with an eight year term.

## Top tip

To help your clients find their key people, look at salary – most companies offer key staff attractive remuneration packages .



# Key Person: how much cover?

**Once your client has identified their key people, you need to recommend a reasonable amount of cover. There are a number of options you could consider.**

## Multiple of profits (to protect business profit)

- Decide whether to base this on gross profit or net profit. Consider either 2 x gross profit or 5 x net profit.
- Normally you would look to use gross profit for key people who directly influence money coming into the business (such as sales staff).
- Net profit should be used for key people responsible for managing cash flow (such as a Managing Director).
- Where there's more than one key person, you need to split the cover according to each person's contribution.

## Multiple of salary (to cover replacement/ recruitment costs)

- Suggest cover between 7-10 x gross salary for key people who don't own the business.
- You might want to also include employment benefits (car allowance for example).

## Proportion of salary roll

- This approach looks at the key person's contribution to company turnover using the following simple formula:

**Salary x turnover x years to recruit and train replacement**

**total salaries**

## Loan security (to pay off debt)

- You can base the cover on any loans, business overdrafts and other relevant lending.

## Recruitment costs

- Look at the cost of recruiting and training a replacement, as well as how long it would take for them to get up to speed in the role.
- There will inevitably be a delay between the replacement arriving and making an appropriate contribution to profits.

## Business start up

- It can be trickier to work out how much cover to recommend to a new business. One approach is to look at the working capital at risk compared to the key person's proportion of this risk.

These are guidelines only, please speak to your account manager for more information.

# How to set up Key Person cover by business type

| Business type                       | Who should be insured                 | Benefits (separate policies should be set up to protect profits or clear debt)   | How to set up the cover   |
|-------------------------------------|---------------------------------------|--|---|
| Sole trader                         | Business owner or key member of staff | <p>If the sole trader dies, their family/next of kin would be responsible for any business debt (including outstanding pay for any employees). Key Person cover can be used to pay off debt or keep the business operating.</p> <p>If the key person is an employee (not the business owner) the cash injection helps the company protect profits or, clear existing debt.</p>         | <p><b>Own life:</b> the sole trader takes out the plan which is written in trust with their family/next of kin as the beneficiaries. If the sole trader dies, the money is paid to the beneficiaries (usually family or next of kin).</p> <p><b>Life-of-another:</b> sole traders can also take out Key Person cover on the life of an employee. The sole trader takes out the policy on a 'life-of-another' basis. Any claim is then paid directly to the sole trader.</p> |
| Traditional or ordinary partnership | Partner or key member of staff        | <p>If one of the partners dies or has to take early retirement due to ill health, the remaining business owners would be responsible for any debt. Key Person cover can be used to pay off the debt or keep the business operating.</p> <p>If the key person is an employee (not the business owner) the cash injection helps the company protect profits or, clear existing debt.</p> | <p><b>Own life:</b> if the key person is a partner, the plan is on their own life, written in trust for all the partners. Any claim is then paid to the remaining business owners (via the trustees).</p> <p><b>Life-of-another:</b> if the key person is an employee, one of the partners takes out the policy on a 'life-of-another' basis, placed under trust for the benefit of all the partners.</p>   |
| Limited company                     | Shareholder, or key member of staff   | The proceeds give the company a cash injection, which can be used to either:   | <b>Life-of-another:</b> the company takes out the policy on a 'life-of-another'. If a claim's made, the money is paid directly to the company.  |
| Limited liability partnership       | Partner or key member of staff        | <ul style="list-style-type: none"> <li>protect profits or</li> <li>clear existing debt.</li> </ul>   |   |

# An example of how Key Person cover could protect a small business (profits)

**Windsor Agricultural Supplies Ltd is a well-established farming supplies distributor. After twelve years of trading, the company employs six people and has been able to purchase their trading premises outright.**

The company has two owners, Steven and Tom. Steven's extensive agricultural background means he has a lot of influence over customers and suppliers; Tom manages the day-to-day logistics of the business, ensuring bills and salaries are paid on time.

During a meeting with their financial adviser, it becomes clear although Tom is clearly important to the running of the business, without Steven, the company would struggle to maintain important customer and supplier relationships. The company take out Key Person cover on the life of Steven for £500,000, paying out on his death or diagnosis of a critical illness. The level of cover is based on 2 x net profits (the percentage of profits Steven is directly responsible for).

Unfortunately, 18 months later Steven suffers a major stroke with severe, permanent disabilities. Tom makes a claim under the Key Person cover, allowing the company to meet its short-term obligations (wages, costs of stock etc.) and also deal with the loss of a number of key customers to competitors. The proceeds are also used to hire a number of well-respected, industry sales people who begin the job of re-building a strong client base.

Windsor Agricultural Supplies Ltd continues trading and making a profit, ensuring the long-term survival of the business.



# An example of how Key Person cover could protect a small business (paying off debt)

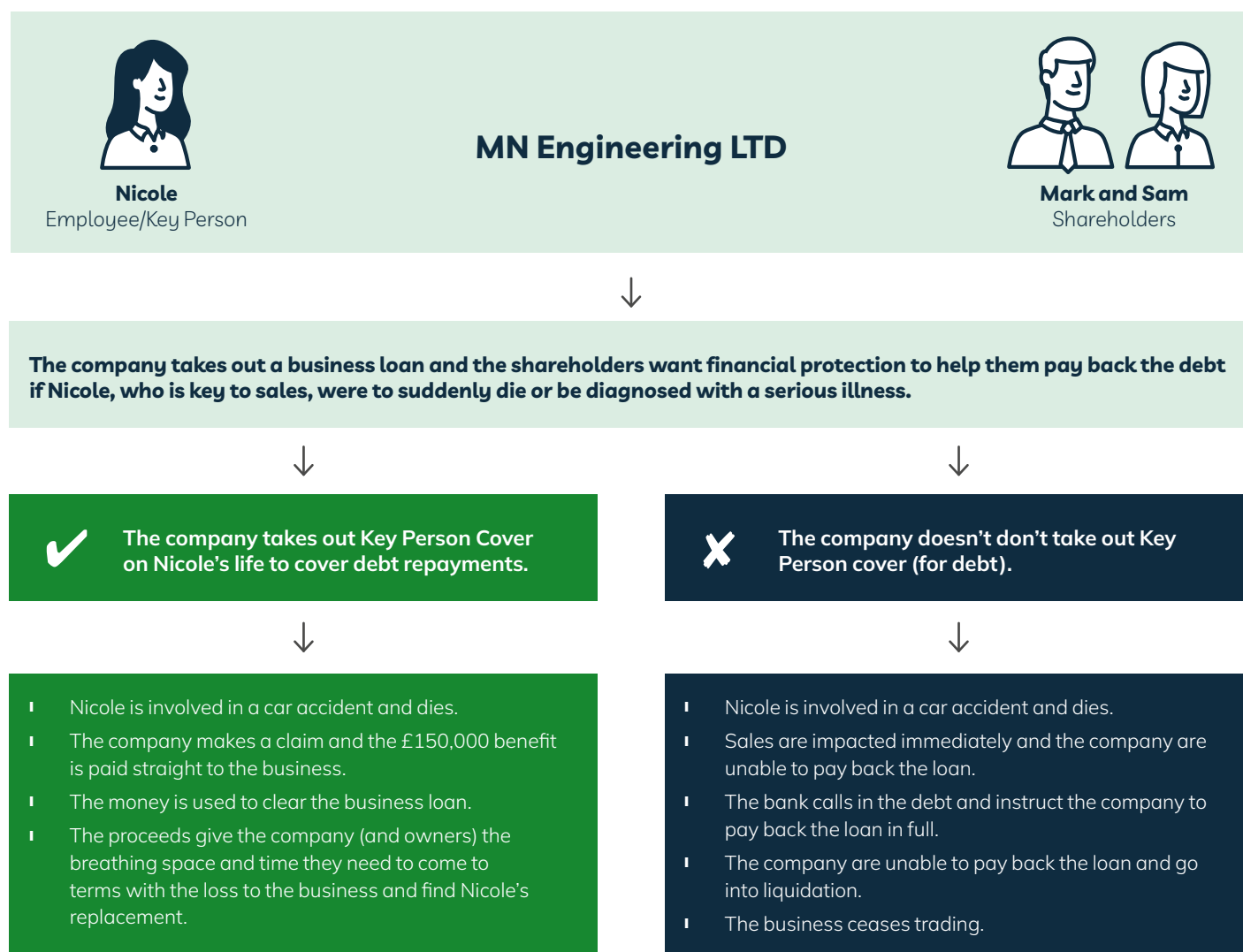
**Mark and Sam are shareholders at MN Engineering Limited, a growing business specialising in high precision components for the defence and automotive sectors.**

Both manage the day-to-day running of the business and also employ a sales manager, Nicole, who brings in the majority of new business. They want to expand and invest in more equipment but due to a lack of available funds, they need to take out a business loan of £150,000.

The bank agree to the loan; cash flow is good and business is steady, and the bank are confident that MN Engineering will be able to pay back the debt.

Mark and Sam realise how important Nicole is to the company's long-term survival and understand if she were to die, or be diagnosed with a serious illness, the business would be at real risk of defaulting on the loan due. They take out Key Person cover for £150,000 (which equals the original amount of money lent by the bank).

Unfortunately, Nicole is later involved in a car accident and dies. MN Engineering make a claim and the proceeds are paid quickly; allowing the business to pay off the loan, giving the owners the breathing space they need to find a replacement for Nicole and keep MN Engineering running.



# Quick guide: Share Protection and Partnership Protection

**Share Protection and Partnership Protection is sometimes referred to as 'Owner's Insurance' and help business owners keep control of the company if one of them dies or is diagnosed with a critical illness.**

## The cover you recommend depends on the business set-up

- Share Protection is for limited companies.
- Partnership Protection is for partnerships and limited liability partnerships.

## How to position Share Protection and Partnership Protection with your clients

Losing an owner can have a huge impact on the day-to-day running of a business, and quickly result in financial difficulties. Boardroom confusion can lead to conflict in decision making, as the surviving owners and the deceased's family may have very different ideas about the future of the business. Other potential problems include:

- If the deceased owner's family are willing to sell the shares, the surviving owners could have trouble raising the finances and disagreements over the terms of the sale could lead to further difficulties.
- If the shares are sold on the open market, a new owner could take control of the day-to-day running of the business. That new business owner could be a competitor or completely unsuitable for the business.
- Uncertainty over ownership may cause banks and investors to re-structure or cancel funding.

The unexpected loss of a business owner can have a damaging impact on a company. Share Protection and Partnership Protection (in conjunction with a cross option agreement) can help ensure shareholders and partners regain control of the business.

## How much cover?

Valuing a company can be difficult and surviving shareholders will need enough money to purchase the lost business owner's shares.

In the absence of an accountant's valuation, you should consider looking at:

- net profit from the last three years
- assets (such as property, vehicles, specialist equipment)
- liabilities and price earnings ratio (assuming future performance).

In general, the amount of cover you recommend should equal the market value of each owner's share of the business.

### Top tip

Online calculators, such as the LV= Business Valuation Calculator can help make this as simple as possible for you. You can find these at [LVadviser.com/business-protection](https://www.lvadviser.com/business-protection)



# Premium equalisation

**Premium equalisation makes sure that when business owners take out shareholder or partnership protection they only pay an amount that is commercially relative to the benefits they stand to gain.**

If a business had four partners each with an equal share, you would expect the owners to each pay 25% of the total premiums. However, if one partner is older, or has preexisting conditions, the premiums will increase (just like personal protection). Additionally, HMRC insist on premium equalisation for commercial arrangements, ensuring each owner pays a commercial amount relative to the risk and proceeds they are likely to receive.

The LV= Premium Equalisation Calculator helps you split the overall premium costs between the business owners, according to their individual share and protection risk. If using the calculator, print off two copies of the report, one for your client's accountant and one for your own file.

The premium equalisation formula is:

survivor's own share

the sum of the remaining survivors' share

### An example of premium equalisation

Peaks is a specialist engineering company owned by three shareholders. David Miller owns 40% of the business, Matthew Smith owns 35% and Michelle Jones has a 25% share. The company's financial adviser recommends the following Share Protection:

| Owner          | Age | Share | Amount of cover | Annual premium |
|----------------|-----|-------|-----------------|----------------|
| David Miller   | 55  | 40%   | £400,000        | £4,879         |
| Matthew Smith  | 45  | 35%   | £350,000        | £2,541         |
| Michelle Jones | 35  | 25%   | £250,000        | £971           |

The below table shows the shares each partner would receive/ purchase if one of the other owners dies (using the premium equalisation formula across):

| Owner               | David Miller | Matthew Smith | Michelle Jones |
|---------------------|--------------|---------------|----------------|
| Share               | 40%          | 35%           | 25%            |
| Matthew Smith dies  | 40/65 = 62%  | –             | 25/65 = 38%    |
| David Miller dies   | –            | 35/60 = 58%   | 25/60 = 42%    |
| Michelle Jones dies | 40/75 = 53%  | 35/75 = 47%   | –              |

### Each owner then pays the following premiums:

David Miller pays 62% of Matthew Smith's premium (£1,575) and 53% of Michelle Jones' premium (£515).

Matthew Smith pays 58% of David Miller's premium (£2,830) and 47% of Michelle Jones' premium (£456).

Michelle Jones pays 38% of Matthew Smith's premium (£966) and 42% of David Miller's premium (£2,049).

# How to set up Share Protection and Partnership Protection

| Business type                  | Who should be insured | Benefits   | How to set up the cover  |
|--------------------------------|-----------------------|--|--|
| Limited companies              | Shareholder           | The remaining business owners keep control of the company (control isn't passed onto anyone else).   | <b>Own life:</b> each shareholder or partner takes out a plan on their own life which is written in trust for the other business owners. Each shareholder or partner signs a cross option agreement. The remaining partners use the money paid under the claim to buy the shares.  |
| Limited Liability Partnerships | Partner               | The sold shares get fair value – without available capital (and a cross option agreement) the shares could be sold by the deceased owner's family at below market value (for a quick sale).<br><br>The arrangement is tax-efficient. | <b>Life of another:</b> where there are only two business owners, each can take out a life-of-another plan for the appropriate amount of cover on the other owner's life. The owners should also sign a cross option agreement. The claim is then paid directly to the surviving business owner with the proceeds being used to purchase the deceased's share. |
| Partnership                    | Partner               | The remaining partner/ partners keep control of the company.   | Own life: each partner takes out a plan on their own life which is written in trust for the other business owners.   |

## What is a cross option agreement?

Also known as a 'double option agreement', this is a legally binding contract between each business owner which outlines what would happen to the shares if one of them dies (or takes early retirement due to ill health).

In Business Protection, the cross option agreement gives the surviving business owners the option to buy the deceased owner's shares, and the estate the option to sell them. This process helps ensure business continuity (the business carries on trading with minimal disruption). A cross option agreement should be set-up at the same time as Shareholder or Partnership Protection.

## Business protection calculators

We've developed a number of calculators to help you successfully position and recommend Business Protection.

These include the Business Risk Calculator, an easy to use tool which helps clients understand the risk of an owner or key person dying or being diagnosed with a critical illness before retirement.

The Business Risk Calculator produces a personalised report you print off and share with your client (and save alongside their file). You can find all our tools and calculators at [LV.com/businessprotection](https://lv.com/businessprotection)

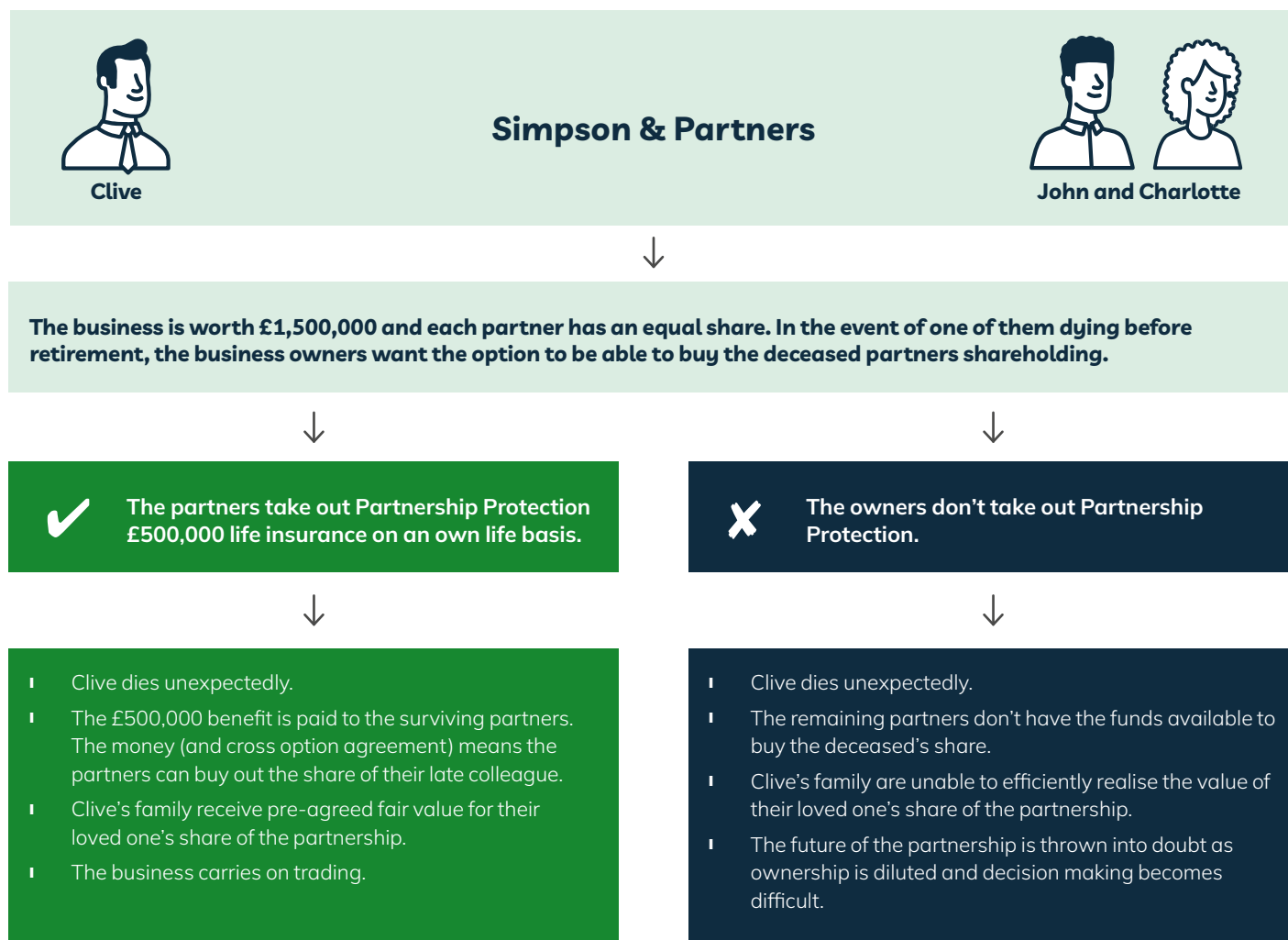
# How Share Protection could safeguard a growing business (limited liability partnership)

**Simpson & Partners is a legal firm with three partner solicitors and more than twenty staff, and has grown considerably over recent years. All three partners have an equal share in the business and considerable influence in the company's day-to-day running and success. Each partner's share is valued at £500,000.**

The partners, John, Clive and Charlotte, are all currently fit and healthy, in their mid-40s, and don't expect to retire for another twenty years. As solicitors, they understand why Business Protection is important – they also realise if one of them died suddenly, there would be no available capital to buy the deceased's share, exposing the business to considerable risk.

Simpson & Partners take out Partnership Protection in the form of three separate life insurance policies, on an own life basis written in trust for the other partners. Each policy would pay out £500,000 to the remaining business owners if one of them died before retirement. A cross option agreement is also signed giving the remaining partners the option to buy the deceased's share of the business while allowing the family to efficiently sell it.

Five years later, Clive dies unexpectedly and the surviving business owners make a claim. The proceeds from the policy release the capital needed to buy the deceased partner's share. The cross option agreement ensures this process happens as smoothly as possible. Without Partnership Protection, John and Charlotte would not have had the money needed to buy the deceased's shareholding; Clive's family could have sold it on the open market, undervalued and to a competitor (or other unsuitable buyer).



# Quick guide: Executive Income Protection

Executive Income Protection is a tax-efficient form of income protection insurance which allows businesses to cover employee sick pay costs if a key employee is unable to work due to illness or injury. It's only available to Limited Companies and Limited Liability Partnerships. It's not available for sole traders or the self employed.

Under the LV= plan there is also an option to cover the employer's National Insurance and pension scheme contributions.

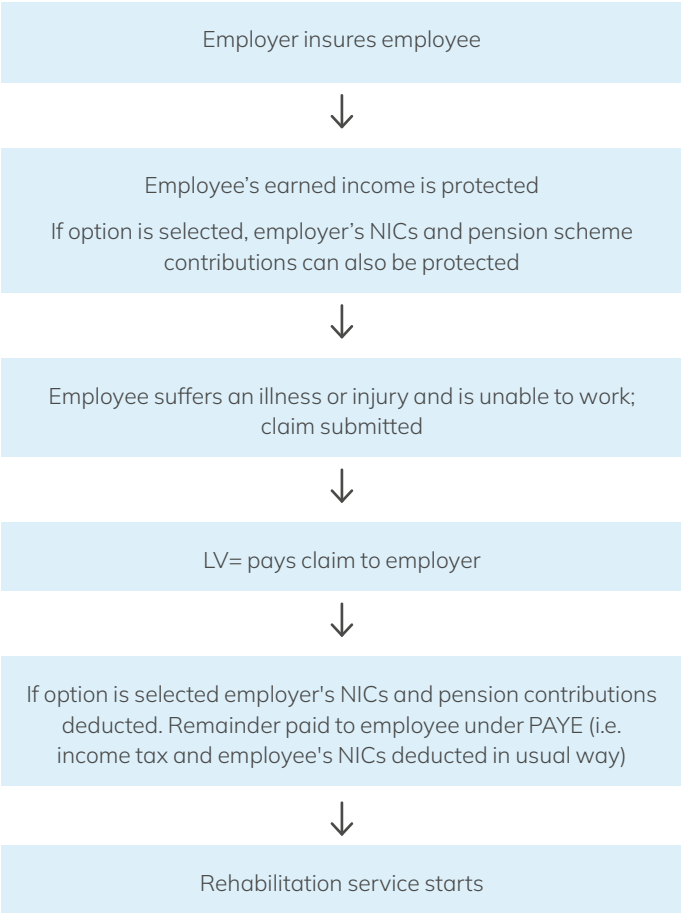
**Policy set up:** Executive Income Protection is arranged on an individual life of another basis, with the employer as the policy owner, and the employee as the person insured.

**Cover:** Executive Income Protection covers up to 80% of the employee's combined earnings, which can include salary, bonuses, P11D benefits, dividends and spousal dividends, if applicable. In addition to this the employer's National Insurance and pension scheme contributions can also be covered.

### Who might benefit from Executive Income Protection?

- **Small to medium businesses** wanting to offer income protection to their key people, but either struggle to cover the costs associated with group schemes or have too few employees to be able to set one up.
- **Members of group schemes who want to top up their benefits.** Some group schemes are restrictive and Executive Income Protection can be used to provide an additional benefit in a tax-efficient way.

### How the cover works



### What's the tax position?

#### Tax on premiums:

Under Executive Income Protection, premiums should be tax deductible for the employer/business provided the employee doesn't have a financial interest in the business and the local Inspector of Taxes is satisfied they qualify under the 'wholly and exclusively' rules. Premiums are not classed as a benefit in kind (P11D) for the employee.

#### Tax on claim payments:

Following a valid claim under Executive Income Protection, the benefit is paid to the employer who passes the benefit on to the employee through PAYE. Income tax and employee National Insurance contributions are deducted.

The payment to the employer is treated as a trading receipt for the business, and the benefit paid out should be treated as a business expense (provided the local inspector of taxes is satisfied they qualify under the 'wholly and exclusively' rules. If the option has been selected to cover employer NICs and pension contributions these should be deducted before paying the remainder to the employee under PAYE.

This is based on our current understanding of current legislation and HMRC practice, which can change in the future (Current as of April 2024).

The employer should check the tax position with their accountant and their local inspector of taxes.

# Quick guide: Relevant Life Cover

Relevant Life cover is a tax-efficient life insurance policy, allowing companies to offer death-in-service benefits to their staff. It's only available to Limited Companies and Limited Liability Partnerships. It's not available to sole traders or the self employed.

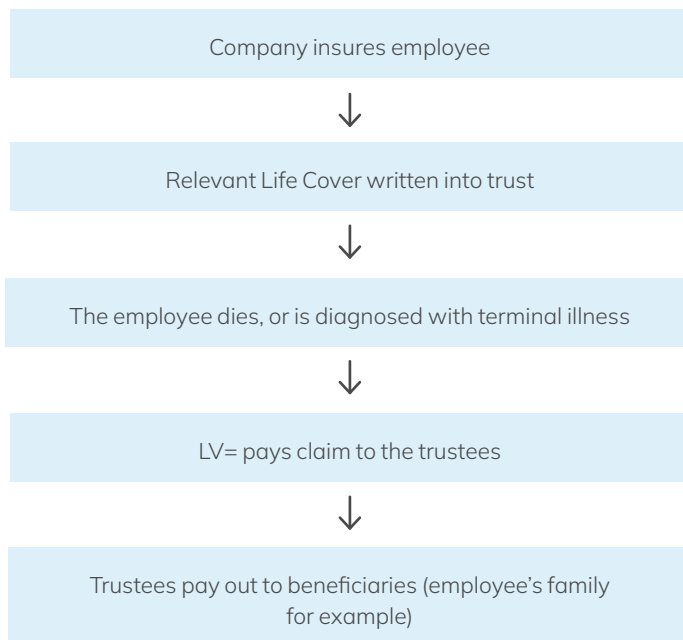
## Benefits over a group life scheme

Relevant Life Cover is arranged on an individual basis with the employer as the policy owner, and the employee as the person insured. The employer pays for the policy and unlike group schemes; HM Revenue & Customs usually consider the premiums a business expense.

## Who Relevant Life Cover might benefit

- **Small businesses** wanting to offer life insurance to their key people, but might struggle to cover the costs associated with group schemes.
- **Members of group life schemes** who want to top up their benefits. Some group life schemes are very restrictive. Relevant Life Cover can be used to provide an additional benefit in a tax-efficient way.

## How the cover works



HMRC usually treat the premiums as an allowable business expense (so not included as a P11D benefit), providing the local Inspector of Taxes is satisfied they qualify under the 'wholly and exclusively' rules. This means the premiums and benefits usually qualify for relief on:

- Income tax
- Capital gains tax
- Corporation tax
- National insurance.

## Questions to ask your client

### Key Person cover

- Who is responsible for the following key business areas?
  - Leadership
  - Production of goods or services
  - Financial control
  - Sales and marketing.
- What impact would their loss have on the business financially?
- Could anyone else in the business do their work?
- Would the business need to recruit and train a replacement?
- Does the business have the money needed to find a replacement? Recruitment costs, salary etc.
- How long would the business survive without a replacement?
- Could the company recover without an injection of funds to replace the loss of profits?
- If a key person was diagnosed with a critical illness (like cancer) or suffered another serious illness or injury and needed time off work for treatment and to recover, could the business afford to pay their salary and a replacement's salary?
- Would you be in danger of losing a contract or important contacts if you lost a key person?
- Are there any business loans in place that are secured against the owner's family home?

### Share Protection/Partner Protection

- Who owns the business?
- If a shareholder/partner died, would the business want to buy the shareholding, or would they be happy for the deceased's family to sell it e.g. to a competitor?
- If a shareholder died and the business wanted to buy the shares, how would the other shareholders raise the money?
- And if the shareholder died, how quickly could you raise the money (if the stakeholder's family wanted a quick cash payment)?
- If the business has a loan (and one of the shareholders is the guarantor) could the business afford to pay the money back in one go?
- Would you be in danger of losing contracts, goodwill with the bank and suppliers if you lost one of your partners?

**For further information use our fact find document to help you understand your client's business protection needs, and which cover to recommend.**



# Business Protection glossary

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**Automatic accrual method:** used by partnerships, this agreement means if a partner dies, their shares automatically pass to the remaining business partners.

**Buy and sell agreements:** legally binding agreements setting out who can buy shares and at what price sometimes used as an alternative to a cross option agreement.

**Capital gains tax:** a tax on capital gains, which is normally only paid when you sell an asset.

**Corporate Debt Cover:** Key Person Cover for debt can protect corporate debt, like a business loan.

**Cross option agreement:** an agreement allowing surviving business owners to buy a deceased owner's share. A cross option agreement can be signed when taking out Share Protection or Partner Protection. Can also be known as a double option agreement.

**Director's loan account:** a loan made by a director to the company. This can be made up of money actually loaned or undrawn salary or dividends.

**Executive Income Protection:** a tax-efficient income protection policy that allows employers to provide sick pay cover for their employees, and also to cover their employer National Insurance and pension scheme contributions.

**Equalisation of premiums:** when it comes to Share Protection and Partnership Protection, it makes sense for the business owners to pay an appropriate share of the premiums. Age, health and lifestyle affects the cost of cover, so splitting the total premium by the number of business owners might not be the fairest way of dividing the cost.

**Inheritance tax:** a tax potentially payable on an estate when someone dies.

**Key Person Cover:** a life insurance policy (with or without critical illness) taken out by a business on the life of an employee or director. This is often referred to as Key Man Cover or Key Man Insurance.

**Life of another:** life insurance taken out on the life of another person.

**Limited Company:** a business registered at Companies House, that is limited by shares, and is owned by shareholders and run by directors.

**Limited Liability Partnership:** a business owned by two or more people, and registered at Companies House. The owners are liable up to the amount of money they invested in the company.

**Own life in trust:** a life insurance policy taken out by someone on their own life, written in trust.

**Owners Insurance:** another term for Partner Protection or Share Protection.

**Partner Protection:** a life insurance policy (with or without critical illness) taken out by a partnership/ limited liability partnership on the life of a partner.

**Partnership:** a business owned by two or more people, who are liable for any business debt.

**Relevant Life Cover:** a tax-efficient life insurance policy that allows employers to provide death in service cover for their employees. This is sometimes referred to as a Relevant Life Policy.

**Share Protection:** a life insurance policy (with or without critical illness) taken out by a limited company on the life of a shareholder (this might be a director).

**SME:** Small to Medium Enterprises – classified as any business with less than 250 employees.

**Sole trader:** a business that is owned and controlled by one person (i.e. self-employed) with unlimited liability.

**Sole trader insurance:** if the sole trader dies, the proceeds from Key Person Cover can be used to clear business debt (which would otherwise be inherited by the sole trader's next of kin).

**Trust:** a trust sets aside a potential benefit to a specified person or people (the beneficiaries), which is managed by a trustee or trustees.

**Trust deed:** this is the legal document that establishes and governs the trust.

**For more information on LV= Business Protection, speak to your account manager or visit**



**[LVadviser.com/business-protection](https://lvadviser.com/business-protection)**

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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