Business Protection

What is business protection?

Interdependence between shareholders is an integral part of many businesses in Ireland. For this reason the death or serious illness of a shareholder can result in a loss of profit, business contacts and investment. Although the surviving shareholders may want to purchase all or part of the shareholding from the ill shareholder or deceased's estate, they may lack the capital to do so or they may be unable to agree on the value of the shareholding.

It is believed that the majority of business failures result from management breakdown. An individual has a greater than one in four chance of death before retirement and a 60% chance of suffering from a serious illness before age 65. These statistics, whilst unpleasant, need to be considered in order to prevent sudden death or illness causing unnecessary financial problems for the succession planning of a business and the families of those involved in the business.

Business protection insurance provides an immediate lump sum to the survivors or to the company to secure the survival of the business on the death, disability or serious illness (depending on the contract selected at outset) of a shareholder in the company.

On the death of a shareholder in a private limited company their legal personal representatives become the owner of their shares in that company pending the dissolution of the estate. Their dependants, those who inherit the shares, then have three options open to them:

1. Retain the shares and take an active part in the running of the company.
2. Sell the shares to the surviving shareholders.
3. Sell the shares on the open market.

In the absence of any formal arrangement there is no obligation on the surviving shareholder's to purchase the shares of the deceased colleague. In fact they could refuse, without stating any reason, to register any transfer of shares. In this eventuality the deceased shareholder's dependants could be forced to sell their shares to the surviving shareholder at a 'take it or leave it' price. It is therefore imperative that a proper business protection plan is in place to protect all parties.

The unexpected death or serious illness of a shareholder could result in:

i. Financial difficulty for the surviving shareholders
ii. Financial loss to the business
iii. Need for Capital to purchase the shareholder's share of the business and secure the survival of the business
iv. Financial difficulties for the family of the deceased or ill shareholder
v. Possibility of guarantees being called upon

Business Protection provides a mutually beneficial solution to ensure:

1. The continued survival of the business for the surviving shareholders through the availability of the funds needed to purchase the relevant shares
2. Greater financial security for the family of the deceased or the shareholder
3. A market to purchase all or part of the shares from the deceased or seriously ill shareholder

The combination of shareholders life cover, specified illness and disability cover provides security and peace of mind for the business and the family of the shareholders/partners.

Establishment

Business Protection can be established in the following ways:

(a) Partners/Directors Arrangement

Each shareholder effects Life/Specified Illness cover to the value of his share of the business

(b) Corporate Arrangement

The company effects Life/Specified Illness cover on each shareholder to the value of his share of the business. Premiums are payable by the company and all benefits are paid to the company. Premiums paid by the company are generally not tax deductible. However all benefits paid to the company are not normally taxable.

Summary

Business Protection Cover provides the capital sum required at the right time to secure the business

Business Protection Cover is a tax effective, forward thinking business succession planning arrangement of benefit to each shareholder, his or her dependants and to the business as a whole.

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