

HELPING YOU PROTECT  
THE LONG-TERM FUTURE  
OF YOUR BUSINESS



BUSINESS PROTECTION  
FOR SOLE TRADERS

# BUSINESS PROTECTION FOR SOLE TRADERS



A sole trader is someone who trades on their own without the use of a company structure or partners. They are entirely liable for the debts of the business, so any protection they take out will be on a personal basis.

The sole trader needs to think carefully about what will happen to their business if they become critically ill or die.

Protection solutions for sole traders can be different to protecting a company or its shareholders, so this section looks at what business protection solution may be suitable for a sole trader. In the event of the death or the serious illness of a sole trader, the business could experience some of the following:

- loss of key contracts
- banks asking for additional security over loans
- cash flow problems
- suppliers requesting early payment for goods and services

The main areas for the company to consider are:

- Protecting key employees - protecting profits
- Protecting business loans
- Protecting the sole trader's and their families

# PROTECTING SOLE TRADERS KEY EMPLOYEES



## Why is it needed?

The loss of a key employee could adversely effect the company's cash flow and ability to trade. If it is as a result of long-term illness, then there could also be additional contractual employment issues and costs to address.

## What can the sole trader do about this?

The sole trader can insure against the loss of the key employee to ensure there is sufficient cash available in the business. It will also ensure the business can continue to trade for a period of time.

## How would this help the business?

It would ensure that, in the event of a claim, that a lump sum benefit would be payable to the business to give it additional cash flow to support the business recovery.

## How is this arranged?

The sole trader can insure the life of the key employee, on the life of another basis. The sole trader would be the policy owner and the life assured the key employee, with the sole trader receiving the benefits in the event of a claim.

## What are the tax implications?

The tax treatment of this type of key person cover is down to agreement with your local Inspector of Taxes. However, the generally accepted guidelines were laid down in 1944 by the Chancellor of the Exchequer, Sir John Anderson, and are known as the "Anderson Principles". In relation to the issue of tax relief he stated that:

- the relationship should be that of employer and employee
- designed to meet a loss of profits
- be short term in nature – taken as meaning 5 years.

If the above conditions are met, then it is expected that the premiums should attract tax relief and that the benefits would be taxable.

### Just the Facts

- Insure against loss of key employee
- Sole Traders owns the policy.
- Ensures business can continue to trade for a period of time.
- Get expert advice on tax relief

# PROTECTING SOLE TRADERS BUSINESS LOANS



## Why is it needed?

When a sole trader has sought additional finance to support their business activities, the lender may insist that the loan is repaid in the event of death or serious illness.

## What can the sole trader do about this?

The sole trader can effect a life and critical illness policy, written in trust for the benefit of their family for the potential liability, to ensure that they have adequate cash available to repay the loans.

## How would this help the business and family?

It would ensure that, in the event of a claim, that a lump sum benefit would be payable to provide them with the additional cash to repay the loans.

## How is this arranged?

The sole trader can propose for a life insurance and critical illness policy on their own life, with the benefits written in trust for their beneficiaries. With advice, the sole trader can agree upon an appropriate sum assured and the most tax-efficient way to arrange the protection plan.

## What are the tax implications?

If the sole trader applies for their own policy, then there would be no tax relief because of the personal nature of the cover. If the business pays the premiums, then this is treated as drawings, although the benefits may be tax free.

### Just the Facts

- Insure the business against the repayment of loans on loss of sole trader.
- Sole trader effects own life policy.
- Ensures lump sum to help family repay loans.
- Get advice on appropriate sum assured and best solution.

# PROTECTING THE SOLE TRADER FAMILY



## Why is it needed?

As the sole trader is the owner of the business, then their fortunes and financial security is directly related to the success or failure of the business.

## What can the sole trader do about this?

They can look to review their overall level of protection policies by identifying the issues that would arise in the event of death or critical illness. In addition, they should understand how they can protect their personal income in the event of long-term disability.

## How is this arranged?

The business owner should look to ensure that their own personal life, critical illness and income protection are adequate to meet their financial objectives.

## What are the tax implications?

There are very few, if any, tax benefits available as this is essentially personal protection cover.

### Just the Facts

- Review overall protection policies.
- Need to protect personal income.
- Protection to meet financial objectives.
- Get good advice



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