

Future-proofing your business

In the dynamic world of entrepreneurship, business owners often focus on growth and operations. And quite right, too. But it is crucial not to overlook critical protection planning. Samantha Boyd of Rathbones emphasises the importance of proactive financial planning to safeguard your business against unpredictable events, such as the death or serious illness of key personnel.

None of us like to dwell on the risks of death and illness. But ignoring them can lead to unnecessary complications should the unexpected happen. As usual, a little planning can go a long way, providing you and your family with peace of mind and helping your business to navigate these bumps in the road.

All businesses face three primary financial risks:

1. **loss of income or profits** due to the absence of a key individual;
2. **ownership succession challenges**, especially in partnerships or limited companies;
3. **financial compensation** for families or co-owners after a death or serious illness.

These risks can be mitigated through a combination of insurance, legal agreements and structured trusts. We recommend undertaking a comprehensive review of ownership structures and succession intentions, supported by professional financial planning.

Planning for the unexpected

The death or serious illness of a business owner can lead to a number of issues, including reduced profits, debt repayment issues and disruption of operations. Insurance policies – such as life assurance and critical illness cover – can provide essential financial support to enable the business to keep running smoothly. Businesses should consider key person insurance to cover potential losses and the costs of recruiting replacements.

Ownership and succession

For businesses with several owners, succession planning is vital. Without clear formal agreements, the death of an owner can lead to business intestacy, where the law – not the owners – determines the future of the business. It's worth considering:

- **cross-option agreements**, which allow surviving owners to buy out the deceased's share, ensuring business continuity as well as fair compensation for the family;

- **life assurance in trust**, which ensures tax-efficient payouts and avoids delays from probate;
- **regular reviews** of business documents and personal wills to ensure they are aligned with current wishes.

Sole traders and consultants

For sole traders, the business often ceases if the owner is incapacitated. Securing life assurance with critical illness cover, a family income benefit policy and income protection should help to protect the family's finances if the unexpected happens. Relevant life policies may also be recommended for those operating through limited companies, as they can provide tax-efficient protection.

Six succession tips

For a smooth transition during a serious illness:

1. ensure funds are available for share purchases;
2. arrange appropriate cover for illness or death;
3. account for potential Capital Gains Tax (CGT);
4. leverage Business Asset Disposal Relief;
5. prepare trusts and legal agreements;
6. consult financial planners to tailor solutions to your circumstances.

Inadequate preparations for the death of a business owner may lead to complications for the business and for the family. Sound financial planning can guide you through every step of succession planning or the sale of your business and establish a bespoke plan that protects the legacy of your entrepreneurial effort and safeguards the future of your business and your family.

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