

Protection for Business Owners

As a business owner you have unique risks that might not be adequately covered by your personal insurance. Business Insurance can be used to protect against the loss of a key person and the possible resulting drop in revenue, as well as provide the ability to repay debts and protect assets from creditors. It can also be used to fund a business succession agreement, in the event an owner of the business needs to sell their share (as a result of permanent disability or death).

Overview:

One of the most important assets for a business is its people (including both the key employees and the business owners). A key person of the business is anyone whose absence would affect the profitability of the business, if they were to die or become disabled.

Insurance to cover the absence of a key person may assist in keeping the business running (by replacing lost revenue, repaying debts and/or finding a replacement). Insurance can also be considered for the purpose of business succession to provide the funding for any applicable business succession agreements which may be triggered if an owner needs to exit the business permanently.



Who would benefit from this insurance?

This type of insurance may assist a small, medium or large business and the relevant owners. When identifying a key person, the main characteristic is that it is someone who is critical to the financial wellbeing of a business through their continued association. Key people play an important part in generating the revenue for the business, creating goodwill for the business and/or obtaining business loans. Some typical examples of key people are:

- Director, Managing Director or CEO
- Partner in a partnership
- Employee with a particular skill or technical expertise
- Senior sales manager

Example case studies

Case study 1: A small business owner who is also a key person of the business dies, becomes disabled or suffers an illness.

Protection aims:

1. Protect the business from the loss of the key person and resulting loss of revenue along with providing funding if necessary to recruit and train a replacement.
2. Protect the business assets by providing funding to repay any loans which may now become payable.
3. Protect the remaining business owners via funding for any business succession agreements in the event a business owner needs to sell their share due to permanent disability or death.

Options:

1. In the event of a claim, the monthly benefit from a Key Person Income policy may be able to help put the business in a position to survive the loss of one of its most valuable key people by providing monthly benefits for up to 12 months.
2. The proceeds from any lump sum benefit policies may allow the business to repay any loans, without the risk of having to sell any assets that are critical to the successful operation of the business.
3. The proceeds from any Term Life, TPD or Living Insurance policies may be used to fund business succession agreements.

Case study 2: A sole trader becomes sick or suffers an injury.

Protection aims:

1. Assist the business so that it can continue to pay its fixed expenses such as rent, utility bills, rates and salaries of non-income producing staff.
2. Protect the personal income of the sick or injured person.

Options:

1. The proceeds from a Business Overheads policy can help the business survive by allowing the business to receive monthly benefits for up to 12 months. This can help the business continue to pay bills, interest loan repayments and non-income producing employee salaries. The premiums for business overheads policies are generally tax deductible, and the proceeds generally treated as assessable income.
2. The proceeds of an Income Protection policy can help your client and their family continue to meet their personal living expenses during your client's time off work.

Important Information:

Information is current as at 24 Feb 2015. This document provides an overview only and it should not be considered a comprehensive statement on any matter or relied upon as such. The information provided is factual only and does not constitute product advice. Before acting on it, you should seek independent financial and tax advice about its appropriateness to your objectives, financial situation and needs. This information has been prepared without taking account of your objectives, financial situation or needs. The relevant Financial Services Guide can be obtained by visiting www.carringtonfs.net

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