

Helpsheet

Shareholder Protection

The purpose of shareholder protection assurance is to provide the remaining shareholders of a business with funds to purchase a shareholder's share of a business, should they die prematurely or be diagnosed with a qualifying serious illness and wish to sell their shares.

The mechanics:

1. The shareholders establish policies on their own lives for a sum equal to the value their interest in the business.
2. A calculation then takes place to ensure that the premiums due are fair and equitable, so the younger shareholders pay their fair share - this is known as premium equalisation. It is not fair that an older partner should pay a high premium for a policy that he or she will never benefit from.
3. The shareholders agreement should then be amended if necessary, to reflect the existence of the policies and to provide the necessary options for the survivors to buy the deceased's share of the business, should this be appropriate.
4. In the event of a policy claim the policy proceeds will be paid free of all taxes.
5. It is important to constantly review the policy sums assured, perhaps every two years or so to ensure that the cover remains appropriate. It will also be necessary to review the arrangement if a shareholder either increases or reduces his shareholding or a new shareholder invests in the business.

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