


# Shareholder Protection Plans

A woman with short blonde hair and glasses, wearing a grey blazer, is smiling and holding a black coffee cup. She is sitting at a wooden table with several papers and a laptop. A man with glasses, wearing a dark suit, is sitting across from her, also holding a black coffee cup. They appear to be in a meeting or discussion. The background is a dark grey wall.

How to safeguard your business, protect your fellow shareholders, and ensure your family receives fair value

This guide contains 16 pages and will take approximately 12 minutes to read



# What's Inside

A practical guide to protecting your business ownership, your fellow shareholders, and the people who depend on you.

## Contents

03

What is Shareholder Protection?

04

Why Protection Matters

05

How It Works

06

Types of Cover

07

Setting Up Your Protection

08

Valuing Your Shares

09

The Legal Framework

10

Case Study

11

Tax & BPR Changes

12

Your Protection Checklist

13

Common Questions

14

Your Next Steps

# What is Shareholder Protection?

Shareholder protection is a legal framework that provides a set of rules and procedures to govern the relationship between shareholders and the company. It is designed to protect the interests of shareholders and ensure the company is run in a fair and transparent manner.

Shareholder protection is a legal framework that provides a set of rules and procedures to govern the relationship between shareholders and the company. It is designed to protect the interests of shareholders and ensure the company is run in a fair and transparent manner.

## At a Glance

- Shareholder protection is a legal framework that provides a set of rules and procedures to govern the relationship between shareholders and the company.
- Shareholder protection is designed to protect the interests of shareholders and ensure the company is run in a fair and transparent manner.
- Shareholder protection is a legal framework that provides a set of rules and procedures to govern the relationship between shareholders and the company.



# Why Protection Matters

More than 50% of businesses with a key person have no plan in place for what happens if one of their key people is suddenly gone. The impact falls on everyone: the other owners, the business, and the family left behind.

**53%**

of businesses would cease trading within a year if a key person died

**57%**

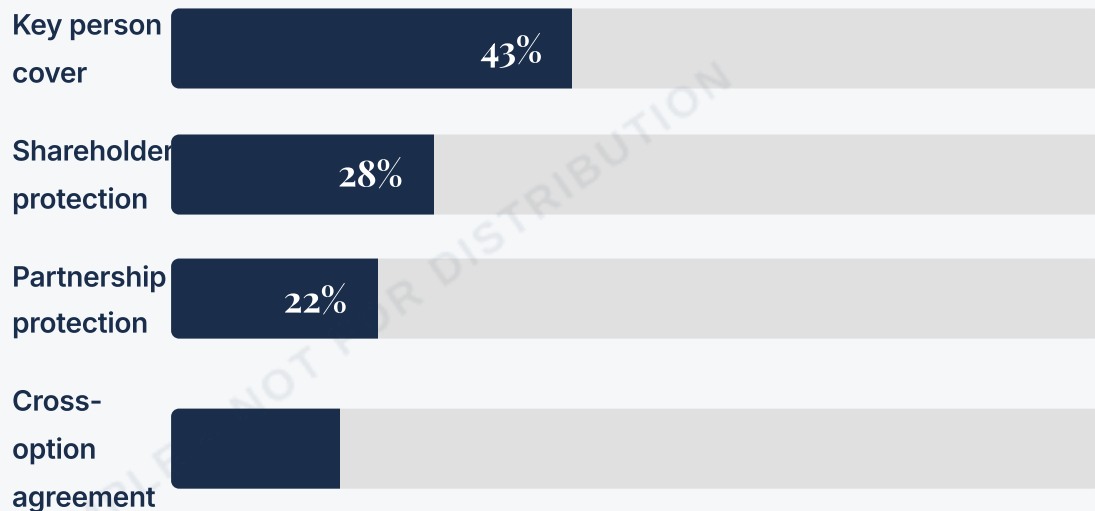
of businesses have no formal succession agreement in place

**5.7m**

UK private sector businesses, most with no ownership protection

## Business Protection Coverage in the UK

Percentage of businesses with various types of protection



## The Real Cost of Doing Nothing

Without protection, surviving owners face a difficult choice: that the money to buy the shares is enough to run or control the business.

# How Shareholder Protection Works

The plan has three parts: insurance policies, a legal agreement, and a trust. Together, they create a clear framework for paying shares in if the worst happens.

## The Three Building Blocks

- **Insurance policies:** Each owner takes out life cover and other critical illness cover for 250% value of their shares.
- **Business trust:** Each policy is placed in a trust. This keeps the money outside the estate and avoids a payment to the other owners.
- **Share option agreement:** A legal deal that gives the other owners the right to buy the shares, and the family the right to sell the shares to the trust.

## What Happens at Claim

If an owner dies or is diagnosed with a serious illness, the insurance pays out to the business. The other owners use the money to buy the shares at the price agreed in advance. The plan gets a full payout. The business carries on.

### *Did you know?*

More than half of all businesses have no plan for what happens if an owner dies. Without one, shares pass through the will or intestacy rules. A family member or stranger could end up with a stake in the business.

# Types of Cover

There are two main types of cover. Your business benefit from a combined policy, but we will help you choose the cover best for you.

## Life Insurance Only

- Pay out on death
- Level monthly payments
- Simple policy structure
- No cover for long-term illness
- No protection during recovery

**Get the**  
best business benefit for your budget with this policy.

RECOMMENDED

## Life + Critical Illness

- Pay out on death
- Level monthly payments
- Simple policy structure
- Protects during long-term illness
- Simple policy structure with 100% cover
- Best comprehensive protection

**Get the**  
best business benefit for your budget with this policy.

**Which option is right for you?**

We will review your business structure, circumstances, and budget to recommend the right type of cover for your needs.

# Setting Up Your Protection

Setting up your protection involves several key steps, including identifying the assets to be protected, determining the appropriate protection structure, and implementing the necessary legal and financial arrangements.

The initial process usually starts with a thorough review of your financial situation and goals, followed by consulting with legal and financial advisors to ensure the protection structure is tailored to your needs.

## Key Decisions

- Identify the assets to be protected and their value.
- Determine the appropriate protection structure based on your needs and goals.
- Consult with legal and financial advisors to ensure the protection structure is tailored to your needs.



# Valuing Your Shares

Getting the right value for the shares in your business and the family trust can be a high-stakes game. The right valuation can mean the difference between a smooth exit and a messy one. We work with your accountant to get it right.

Method	How It Works	Best For
<b>Earnings multiple</b>	Applies a multiplier to net profit (typically 3x to 8x)	Trading businesses with consistent profits
<b>Net asset value</b>	Total assets minus liabilities on the balance sheet	Property or investment holding companies
<b>Dividend yield</b>	Capitalises actual dividends at a required yield	Minority shareholdings
<b>Discounted cash flow</b>	Present value of projected future cash flows	High-growth businesses with clear forecasts
<b>Agreed formula</b>	A pre-agreed calculation in the shareholders' agreement	Businesses wanting certainty and simplicity

**Review your valuation regularly**

Business values change. An accountant reviewing your valuation at least every two years is often the best way to keep it accurate.

# The Legal Framework

The legal framework is a critical component of any Shareholder Protection Plan (SPP). It defines the rights and obligations of the parties involved and provides the legal basis for the plan's operation. Without a clear legal framework, the SPP may be unenforceable or subject to challenge in court.

## Cross-Option Agreements

A cross-option agreement is a type of option agreement that gives the holder the right to buy or sell shares in the company. It is often used to provide liquidity to the holder in the event of a change of control or other corporate event.

## The "Call" Option

The call option gives the holder the right to buy the shares from the company. The call option is often used to provide liquidity to the holder in the event of a change of control or other corporate event.

## The "Put" Option

The put option gives the holder the right to sell the shares to the company. The put option is often used to provide liquidity to the holder in the event of a change of control or other corporate event.

### Don't Forget the Legal Advice

Shareholder protection plans are complex legal documents and it is essential to seek legal advice from a qualified lawyer to ensure that the plan is enforceable and meets the needs of the company and its shareholders.

## Key Terms

### Option

A right or obligation to buy or sell shares at a certain price.

### Trust

A legal arrangement where one party holds property on behalf of another party.

### BPR

Business Property Relief, a tax relief that can be claimed on certain assets, including shares in a company.

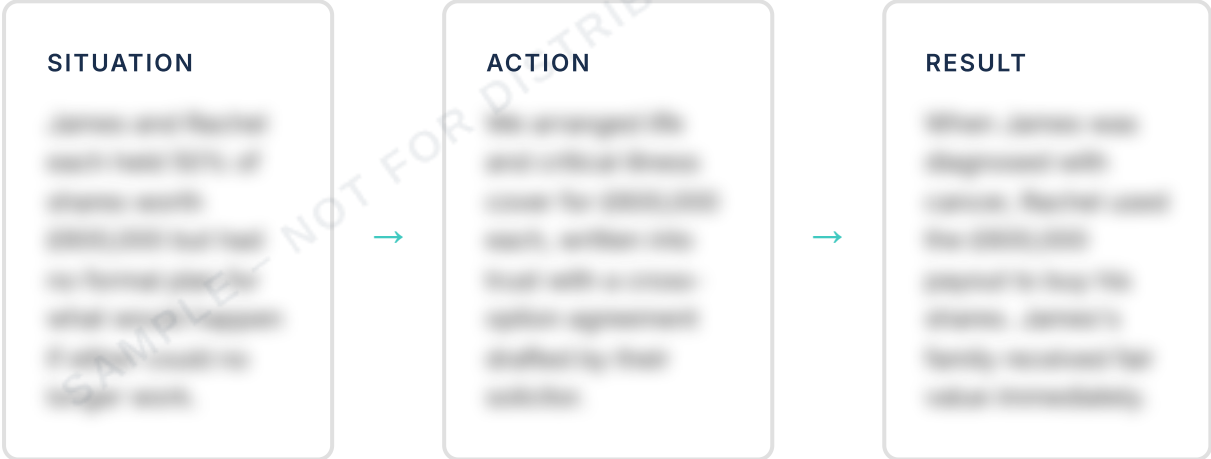
# How It Works in Practice

Let us look at how shareholder protection plans can make a real difference for our business owners.

**JR** **James & Rachel, both 45** Not working

As founders of a digital marketing agency valued at \$1.2 million, with 10 employees.

Grow the business    Protect their families    Secure retirement income



**What if the business owner is not working?**

When the primary revenue generator of the business is not working, the business can be at risk. A buy-sell agreement can ensure that the business continues to operate, even if the owner is not working. A buy-sell agreement can also ensure that the business is protected in the event of a premature death, and the business can continue to operate smoothly.

# Tax Treatment and BPR Changes

The number of shares outstanding from 2014 to 2015 was 100,000. The rules depend on who pays the premiums and how the premiums are earned.

## Premium Tax Position

- **The policy owner:** Premiums come from your net income. The entire net is being paid. This is the most common setup.
- **The company pays:** The company may get a tax deduction, but you could have income tax and be on the premium as a benefit to you.

## Payout Tax Position

When you're all in a trust, the proceeds from a trust to the other owners, it does not go through the estate. That means no inheritance tax on the money and no waiting for probate.

### *Did you know?*

From April 2018, Business Property Relief (BPR) will be capped at 25% rather than 100%. Before this, business assets with 100% BPR were exempt from inheritance tax. It will also be important to get your will updated to reflect the new rules.

# Your Protection Checklist

Use this checklist to ensure that your current shareholder protection plan is fit for purpose and to identify any areas for improvement.

<b>1</b> Shareholder agreement Is there a shareholder agreement in place? Does it cover all key areas? Is it fit for purpose?	<b>2</b> Exit route agreement Is there an exit route agreement in place? Does it cover all key areas? Is it fit for purpose?
<b>3</b> Share valuation Is there a share valuation in place? Does it cover all key areas? Is it fit for purpose?	<b>4</b> Share transfer Is there a share transfer agreement in place? Does it cover all key areas? Is it fit for purpose?
<b>5</b> Share purchase Is there a share purchase agreement in place? Does it cover all key areas? Is it fit for purpose?	<b>6</b> Share redemption Is there a share redemption agreement in place? Does it cover all key areas? Is it fit for purpose?
<b>7</b> Share buyback Is there a share buyback agreement in place? Does it cover all key areas? Is it fit for purpose?	<b>8</b> Share of proceeds Is there a share of proceeds agreement in place? Does it cover all key areas? Is it fit for purpose?
<b>9</b> Share distribution Is there a share distribution agreement in place? Does it cover all key areas? Is it fit for purpose?	<b>10</b> Share transfer Is there a share transfer agreement in place? Does it cover all key areas? Is it fit for purpose?

# Common Questions

Here are the questions we hear most often from business owners considering shareholder protection.

---

**Q** **What is the difference between a cross option agreement and a buy sell agreement?**

**A** A cross option agreement gives both sides a right, but not a duty, to buy or sell. A buy sell agreement forces both sides. Cross option is preferred because it keeps Business Property Relief for inheritance tax.

---

**Q** **How much does shareholder protection cost?**

**A** The cost depends on how much cover you need, your age, your health, and whether you will have other cover. For most businesses, the cost is small compared to the value of shares. We will give you quotes tailored to your situation.

---

**Q** **Can the company pay the premiums?**

**A** Yes, but the premiums may count as a benefit in kind. That means you could pay income tax and NI on the amount. Many owners prefer to pay from their own post-tax income to keep things simple.

---

**Q** **What happens if the business's value changes significantly?**

**A** Review your cover whenever the business has a big change in value. Most policies can be varied or renewed to match. We suggest a formal check at least every 5 years.

---

# Your Next Steps

Getting started is simple when you have the right help. Here's what to do.

- 1** **Book a call** **30 MINS**

We'll have a meeting to discuss your business, shareholdings, and what matters most. We will explain the options and suggest the best fit.
- 2** **Agree a valuation with your accountant** **1 WEEK**

We will work with your accountant to agree how to value the shares and how much each share is worth.
- 3** **Apply for shares** **2 WEEKS**

We will get quotes from leading UK insurers, handle the paperwork, and give you policies and advice to meet your needs.
- 4** **Put the legal agreements in place** **2 WEEKS**

Your solicitor will draft the cover policy agreement and make sure it fits with your existing company documents.

**Ready to protect your business?**

Call us on **0800 000 0000** or email **shareholderprotection@shareholderprotection.com** to book your free 30 min consultation.



Your Financial Adviser

# Let us help you protect your business partnership

Your business is the result of years of hard work, shared risk, and mutual trust. Shareholder protection ensures that partnership is safeguarded, no matter what the future holds. Our team of experienced financial advisers is here to help you make the most of your financial planning opportunities.

## Ready to take the next step?

Call us on 0800 XXX XXXX | [advice@example.com](mailto:advice@example.com) | [www.example.com](http://www.example.com)

Your Financial Adviser | 123 High Street, London EC1A 1AA

FCA Number XXXXXX | Company Number XXXXXXXX