

# Key Person Cover to Protect Debt

Losing a key person can be disastrous for the long-term survival of a business, large or small and although you cannot predict the future, Key Person Cover can protect against being unable to repay creditors and investors. The example below shows how Key Person Cover can be used to help businesses who want to secure the repayment of a business loan if something happened to one of their key employees.

## SMUK Engineering Case Study\*

The company takes out a business loan and the shareholders want financial protection to help them pay back the debt if Michelle, who is key to sales, were to suddenly die or be diagnosed with a serious illness.



### Scenario 1

The company takes out Key Person Cover on Michelle's life to cover debt repayments

- ◆ Michelle is involved in a road traffic accident and dies.
- ◆ The company makes a claim and the £150,000 benefit is paid straight to the business.
- ◆ The money is used to clear the business loan.
- ◆ The proceeds give the company (and owners) the breathing space and time they need to come to terms with the loss to the business and find Michelle's replacement.

### Tax Implications

It is important to understand the tax implications of Key Person Cover, tax treatment of policy payments and proceeds depends upon the individual circumstances of each case.

For further information and advice, please get in touch with our expert tax team.

\*Example for guidance only, not based on a real company

### Shareholders



### Employee



### Scenario 2

- ◆ Michelle is involved in a road traffic accident and dies.
- ◆ Sales are impacted immediately and the company are unable to pay back the loan.
- ◆ The bank calls in the debt and instruct the company to pay back the loan in full.
- ◆ The company are unable to pay back the loan in full.
- ◆ The business ceases trading.

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