

Key Person Cover to Protect Profit

Losing a key person can be disastrous for the long-term survival a business, large or small. Although you cannot predict the future, Key Person Cover can protect against unexpected costs resulting in risky and drastic measures being taken.

The example below shows how Key Person Cover can be used to help businesses who want to secure profits if something happened to one of their key employees.

DK Building Ltd Case Study*

The owners want financial protection if Kevin, who is vital to the business, were to suddenly die or be diagnosed with a serious illness.

Scenario 1

The company takes out Key Person Cover on Kevin's life to protect profit: £500,000.

- ◆ Kevin has a stroke and takes early retirement.
- ◆ The £500,000 benefit covers the sudden loss of profits, and pays for a number of new sales recruits.
- ◆ DK Building Ltd continues trading and making a profit.

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



Scenario 2

The company doesn't take out Key Person Cover.

- ◆ Kevin has a stroke and takes early retirement.
- ◆ The company doesn't have the budget available to cover the sudden loss of profits, or hire new sales people.

The company has two options:

- ◆ Take out a business loan and risk default.
- ◆ The business doesn't recruit replacement staff, putting the business at real risk of closure.



Why Alexander & Co

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