

Business Loan Protection

Overview

Business Loan Protection helps the business pay any outstanding borrowings such as a loan or commercial mortgage, should the person(s) covered die or become diagnosed with a specified critical illness (if chosen). In some situations we are able to consider including cover for overdrafts or director loan accounts.

How does Business Loan Protection work?

Business Loan Protection is either life assurance or life assurance and critical illness cover written on the life of the key individual or individuals so that any money due can be used to pay towards any outstanding debt or loan. The money will be paid to the business where it is a company, Limited Liability Partnership (LLP) or Scottish Partnership. Where the business is a partnership, the policy will be written on an own life basis and may be placed in trust for the other partners.

Issues to consider

- The loss of the individual or individuals who have guaranteed a loan.
- If an overdraft, loan or commercial mortgage is unable to be paid, it has serious implications for the business.
- Director loan accounts should be repaid on
- Death – where will this money come from?

Tax

Premiums will generally be paid by the business and as a 'rule of thumb' the premiums will not qualify as a deductible business expense. However, the benefits will not generally be treated as a trading receipt. It is important to clarify the position with the local inspector of taxes as this may not always be the case.

Determining the level of cover

The level of cover reflects the amount needed to pay the outstanding borrowings. The policy should reflect the terms of the borrowings and could be on a level or decreasing basis.

Trusts

Trusts are not normally required where the business is a company, LLP or Scottish Partnership: in these cases the policy can be owned by the business.

Trusts may be used where the business is a traditional partnership in England and Wales. Lenders will sometimes require an assignment of a policy as security for a loan.



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