

Case Study 4 - Shareholder Protection

Clients' needs

We were approached by a local Company concerned at the possible impact upon their business, should one of them die or suffer a serious illness.

On death, each Director's shareholding would pass to their relevant family members. Their own families do not have the relevant expertise nor inclination to continue to run the business.

The requirement was for provision to be made for the surviving Directors to be able to purchase the shares from the deceased Director's family. In this case, the Company was valued at £600,000 and the 3 Directors had equal shareholdings, valued at £200,000.

Solution

Advice was provided to arrange 3 individual Life Assurance policies for an initial sum assured of £200,000. The policies were written under trust, with the trustees and beneficiaries being the other two Directors.

The Company was advised to arrange a Cross-Option Agreement in respect of the life cover, which afforded the remaining Directors the option to purchase the shares from the deceased's family and for the family to have the option to sell the shares to the remaining Directors. The deceased's family would then receive a cash lump sum in exchange for the shares and the remaining Directors would retain control of the Company.

The Cross-Option Agreement in respect of the life cover, ensures that Business Property Relief is not lost for Inheritance Tax purposes.

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