For intermediaries only

Business Protection

Shareholder protection – life of another policies

This flowchart shows the process for setting up shareholder protection on a life of another basis.

The information is based on our understanding of current legislation, taxation law and HM Revenue & Customs (HMRC) practice, which may change.

Choose the appropriate option agreement for the type of cover being taken out. For critical illness protection use the single option. For life protection use the double option. The shareholders should take their own legal advice to arrange for their solicitor to draft a bespoke option agreement and to make sure this agreement meets their requirements.

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Each shareholder takes out a policy(ies) on the life/lives of the other shareholder(s) – usually written to the insured person's retirement date. The benefit amount should equal the value of the insured person's shareholding. Premium equalisation isn't necessary.

Tax treatment of policy payments

Shareholder pays policy payments out of post-tax income – no tax relief for shareholding director.

If the company pays policy payments and doesn't charge the cost to shareholder – taxable remuneration on shareholder. Company may qualify for tax relief.

Tax treatment of claim proceeds

Claim proceeds paid to the owner of the policy aren't subject to income tax or capital gains tax. Claim proceeds form part of their inheritance tax (IHT) estate and are used to buy the deceased or critically ill shareholder's shares.