

The Sherlock Group

Succession Planning

“Protecting Your Business”



This information is of a general nature only and has been prepared without taking into account your particular financial needs, circumstances and objectives and should NOT be construed as financial, taxation or legal advice. Before acting on the basis of this information, you should consider its appropriateness for your own objectives, financial situation and needs. You should also obtain and read a copy of the relevant Product Disclosure Statement before making any decision to acquire a financial product.

**Level 3, 110 Pacific Highway
St Leonards NSW 2065**

Tel **+61 2 9431 7000**

Fax: **+61 2 9431 7001**

Email: office@sherlockgroup.com.au

The Sherlock Group Pty Ltd

A.C.N. 090 934 884

The Sherlock Group is an authorised representative of Madison
Financial Group. ABN 36 002 459 001, AFSL No. 246679

Business Insurance – Why you can't wait

No one wants to think about the *what ifs*... but if you are a partner in a successful business, the *what ifs* can't wait.

Perhaps you started your business with a group of friends and built your dream together. Perhaps you bought into the business, or inherited it from your family. Whatever your situation, the relationship you have with the key people in your business probably extends beyond your work.

Bringing You Business Insurance Solutions

You've shared the highs and lows of building and running a business as well as your personal ups and downs. You've probably shared social occasions and know each other's spouse and children. In many ways your lives are probably entwined.

What if something happened to you or another partner in your business?

Could your business finances be unravelled to buyout your partner's family for their share of the business?

Is your business debt secured by personal guarantees over assets such as your home?

What would you tell your business partner's family if those personal guarantees were called in?

Now is the time to discuss the *what ifs*... It's also the time to put plans in place to decide what would happen if you or another business partner suddenly left the business... to decide who would take over and how the business would be valued.

Business insurance is not just about securing the future of your business... it's also about securing the future of those you care about and who rely on you for financial support.

Business Insurance

The purpose of business insurance is simply to protect your business. A business insurance plan can:

- Provide funds to enable surviving business partner/s to buyout the financial interest of the deceased business owner;
- Provide funds so that partner/s can buyout the financial interest of an owner who is unable to work due to illness or injury;
- Replace lost business income;
- Replace lost profits;
- Obtain release from personal guarantees;
- Maintain credit standing of the business;
- Maintaining cash flow to cover cost of replacing and training new key person;
- Keep business viable until an appropriate buyer can be found.

We can provide you with insurance products you need to tailor an insurance solution to meet the particular circumstances of your business.



1. Key Person Insurance

A key person is a person who is critical to the operation of a business. If they were to die, become critically ill or incapacitated, the business would suffer economically.

Key person insurance should be taken out by the owners of a business over the lives of each other and/or possibly principals or key employees.

For many owners, their interest in the business is more than just their livelihood. It represents years of investment of their time, energy and money. It is often financial security for those they care about and their nest egg for retirement.

Key people have the management, entrepreneurial or technical skills that ensure the continued success of their business.

The success of any business depends on people as much as property and equipment. Only through planning can you ensure that your business would be able to continue operating and maintain its value should a key person die, become disabled or suffer a critical illness.

Ask yourself and your business partners:

- How would your business fare if one of you, as key people in the business, was to suffer a critical illness or die?
- Could anyone step in and take over the running of the business?
- Does anyone else in the business have your knowledge, expertise or contacts needed to run the operation effectively and profitably?
- Is there a risk that your clients might take their business elsewhere if there was a disruption to what you offer?
- Would profitability and goodwill potentially suffer and what impact might that have on the value of the business should you need to sell?



2. Business Succession – Planning

Business Succession Planning is the term that describes the steps that should be taken in order to make possible the transfer of a business interest from one owner to another person(s), or entity, should the need arise in the future.

As business owners, you would have a long-term objective for your business. Possibilities may include selling the business to someone else who can run it, transferring it to the remaining partners or passing control to a family member.

If you do have a long-term vision for the future of the business, how does that translate to the here and now? What would you want to see happen to the business if either yourself or one of your partners were involved in a car accident on the way home tonight?

Would you or any one of your partner/s be able to raise the funds to buyout another partner's share of the business if it was necessary tomorrow?

Or the child you plan to hand the business over to, is he or she ready to sit at the helm? And would they have the capital, resources and knowledge to be able to run the business, or would employing an interim manager give them a chance to learn the ropes, therefore giving them a better shot at long-term success? Could the funds be found to pay such a person the professional wage required?

What is your business worth now and who do you want to take it over if you were unexpectedly out of the picture?

Remember that an appropriate Business Succession Plan will also identify how the business is to be valued in the event of an owner leaving.

Funding Business Succession

Few people in business have sufficient cash reserves or available credit to buyout a departing owner's interest in a business.

Whilst further borrowing may be an option, the most economic answer is insurance.

A combination of life insurance, trauma and total and permanent disability insurance will provide comprehensive coverage so that you can be certain your business would have the money needed for a buyout should either yourself, or a business partner die or become critically ill.

Any business person would agree that while there is never a good time to think about these matters, there is no worse time than when you are faced with a personal tragedy.

Why jeopardise the financial security of a successful business and possibly the personal assets of the partners when you have a choice.

Payment by an insurance company can fund payment for a departing owner's interest in the business so the surviving partners can continue to run the business without having to find the money for a buyout.

The professionals you need to involve in preparing an effective business succession plan are all of the partners in your business, your insurance adviser, your solicitor and your accountant.

This will ensure that you are fully informed of the tax consequences of the various methods of owning insurance policies as they relate to the circumstances of your particular business and your plans for the future.

A Buy/Sell Agreement is the most common and popular agreement to use in a business succession plan.

What is a Buy/Sell Agreement?

It is a contractual agreement between proprietors of a business, which facilitates the sale of an outgoing proprietor's interests (e.g. Shareholding) once a specified event has occurred (e.g. trauma, death etc).



PROTECTING YOUR BUSINESS

As well as providing a mechanism for the sale of the interest in the business, the Agreement also sets a price at which the interest will be sold and a means to fund the payment of the purchase price.

Due to capital gains tax and stamp duty considerations, it is common to have a Buy/Sell Agreement containing put and call options. Continuing proprietors are granted an option to purchase an outgoing proprietor's interest in the business.

In addition, the outgoing proprietor (or his estate) is granted an option to sell his interest to the continuing proprietors.

As mentioned, Term Life Insurance and Trauma Insurance are usually the most cost-effective way of funding such a purchase. As there may be capital gains tax consequences if there is a change of ownership in the policies, it is customary to either have the policies held by the individual proprietors or held by an insurance trust. It is not uncommon, however, to have policies cross-owned or jointly owned. Whichever method is used, care needs to be taken to ensure that the proceeds received will be tax-free.

3. Personal Guarantor Insurance

Business loans and credit facilities are a normal part of most businesses. But if a partner in your business was to die, become disabled, or suffer a critical illness, the financial position of everyone involved with the business could change dramatically.

Inevitably, business debts are 'joint and several' and supported by personal guarantees from the business owners over their own assets (i.e. their homes). This means that each owner is individually liable for all of the debt.

Ask yourself and your business partners:

- Is it possible you would be forced to refinance or repay business loans if you or one of your business partners was to die, become disabled or critically ill?
- Is there any possibility that the overdraft facilities of your business may be withdrawn?
- Would your personal guarantees be called upon?
- Would your personal assets be at risk?
- Could your business continue to run and services its debts?



PROTECTING YOUR BUSINESS

It is not commonly recognised that the death of a guarantor triggers an automatic default in most loan agreements – entitling the financial institution to call in the loan facility and proceed against a guarantor's personal assets.

If your business debt is secured by personal guarantees, these continue against the estate of a deceased guarantor. This means that your estate cannot be wound up until the guarantee is released.

Planning can help ensure that your business is able to continue meeting its financial obligations.

Appropriate insurance is the least costly and one of the most effective solutions.

This information is of a general nature only and has been prepared without taking into account your particular financial needs, circumstances and objectives and should NOT to be construed as financial, taxation or legal advice.

Before acting on the basis of this information, you should consider its appropriateness for your own objectives, financial situation and needs. You should also obtain and read a copy of the relevant Product Disclosure Statement before making any decision to acquire a financial product.

**Level 3, 110 Pacific Hwy
St Leonards NSW 2065**

Tel: **+61 2 9431 7000**
Fax: **+61 2 9431 7001**
Email: **office@sherlockgroup.com.au**
www: **sherlockgroup.com.au**
www.choiceoffunds.com.au
www.emortgage.com.au

The Sherlock Group Pty Ltd
A.C.N. 090 934 884

**The Sherlock Group is an authorised representative
of Madison Financial Group, ABN 36 002 459 001
AFS Licence No. 246679**

THE SHERLOCK GROUP

