

## Adviser Q&A Star Letter

### What impact will the April dividend tax change have on businesses from a financial protection consideration?

(Tim Boddy, Moneysworth IFA)



With Johnny Timpson, Scottish Widows

Good question. Following last year's 'Summer Budget', from 6 April 2016 there is no more grossing up of dividends and offsetting a notional credit.

Instead, taxpayers get the first £5,000 tax-free, then pay tax at increased rates on the balance.

Even after the £5,000 tax-free allowance, directors will generally pay more tax on dividend payments, as a result of the removal of the tax credit.

When you combine the effect of corporation tax changes and the new higher dividend rate, the tax benefits of incorporation may look less attractive.

Therefore, operating as a sole trader may be more tax-efficient, although the upcoming cuts in corporation tax in 2017 and 2020 is positive news for those operating a limited company.

Many clients operate as a single-person business, and these can be established on a sole trader, limited company or even a partnership basis (both traditional and limited liability) with or without employees.

A single-person business structure can have implications for the shape of their business protection advice and cover needs.

It's possible for a single-owner business using any of these structures to have employees who are not the business owner. But the following tips look at purely single-person businesses (see table, right).

The main protection types are likely to be:

- ▶ Business loan protection;
- ▶ Family protection, where it might be possible to use relevant life cover, depending on the business structure.



## MAIN PROTECTION TYPES FOR SINGLE-PERSON BUSINESSES

### SOLE TRADER

Sole traders are in business on their own behalf on a self-employed basis.

### LIMITED COMPANY

A one-person limited company is a separate legal entity. It's a legal person in the same way as a living individual.

In their capacity as sole shareholder, the individual is the sole owner of the limited company.

In their capacity as sole director, the individual is an employee of the limited company.

### PARTNERSHIP

It's possible to set up a partnership made up of an individual and a limited company with just one underlying business owner (for instance, Chris Bloggs & Partner Fitness).



The two partners are Chris Bloggs and Chris Bloggs Ltd, a limited company where Chris is the sole shareholding director. Chris Bloggs is the sole owner of this business.

### BUSINESS LOAN PROTECTION

If a lender requires life cover, this will always be set up on an own life basis.

### BUSINESS LOAN PROTECTION

Depending on any lender specifications, life cover can be set up on an own life basis, or a life of another basis with the company as the applicant.

### BUSINESS LOAN PROTECTION

Depending on any lender specifications, life cover can be set up on an own life basis, or a life of another basis, with the company (corporate partner) as applicant.\*

### RELEVANT LIFE COVER

It's not possible for sole traders to have relevant life cover, because they are self-employed.

### RELEVANT LIFE COVER\*\*

It is possible to set up relevant life cover for the director of a limited company, as they have employee status.

### RELEVANT LIFE COVER\*\*

It might be possible to set up a relevant life policy given the employer/employee relationship via the limited company.\*

### FAMILY PROTECTION – OTHER

The sole owner of a business is likely to have significant personal and family protection needs. A family trust can be used where relevant.

### BUSINESS TRUST

A business trust is not suitable as there are no shareholder or partnership protection needs because there are no co-owners in any of these business structures.

### NOTES

\*Where a partnership is made up of an individual and a limited company with just one underlying business owner, it's worth checking with the accountant in case business loan protection or relevant life cover conflicts with any other planning.

\*\*Note that with Relevant life cover, the limited company (not the director) would be the applicant for the relevant life policy and the settlor of the relevant life policy trust. The director would be the life assured.

Note: Tax benefits depend on individual circumstances. Tax rules and circumstances may change in the future.

If you would like more insights, industry and product updates from Scottish Widows, register on:  
[www.scottishwidows.co.uk/protect-signup](http://www.scottishwidows.co.uk/protect-signup)