



# Sole trader business protection

## **What is a sole trader?**

A sole trader is a person who trades on their own without the use of a company structure or partners. They're entirely liable for the debts of the business. Any protection they take out will be on a personal protection basis.

## **Protection for the sole trader**

The sole trader needs to think about what will happen if they die or become critically ill. If they become ill, the turnover of the business is likely to drop sharply, which in turn affects how much they can take out of the business so cover in the event of their death or critical illness must be written as personal protection. To cover death, the sole trader could apply for an own life policy and place it in a flexible trust for the benefit of their family. If critical illness is also included, this is a retained benefit so that even if a critical illness claim is made, the proceeds would be paid to the sole trader and not into trust. The sole trader can use the proceeds to keep the business afloat while they're ill and to replace the lost earnings because of their illness.

If the sole trader applies for an own life policy, there wouldn't be any tax relief on the premiums because of the personal benefit to them and their family. If the business pays the premiums, this will usually be treated as drawings from the business. The proceeds should be paid free of tax.

## **Key person insurance of an employee**

The sole trader may want to insure a key employee. In this case, the policy would be written on a life of another basis, with the sole trader being the owner and the life assured being the key employee. If a claim is made, the benefits would be paid to the sole trader as the owner of the policy. The taxation of the premiums and proceeds would be determined by the principles under the Anderson Rules.