countrywide
South East LLP

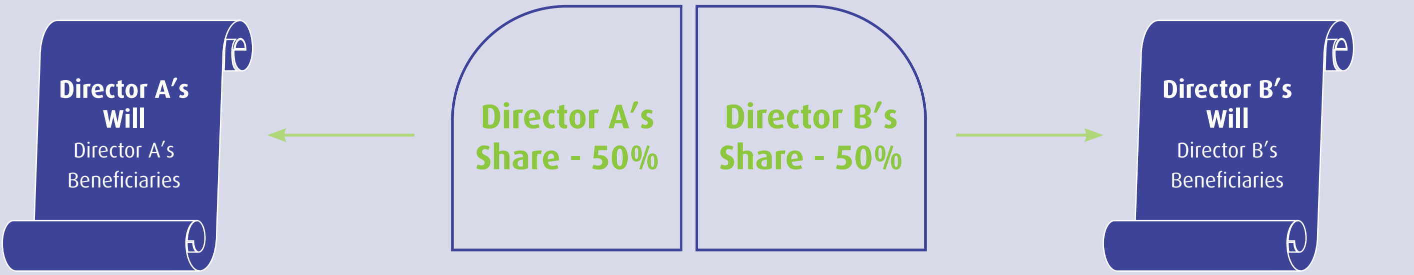
KEY FEATURES AND BENEFITS 10

Cross Option Agreements

✔ KEY FEATURES AND BENEFITS 1 OF 2

PLANNING - WILL ONLY

Note: This sheet is applicable to limited companies or partnerships. The examples illustrate a two partner business but are also applicable to multiple shareholders/partners.



Each Director leaves their share of the business to their Beneficiaries via their Will.

Consequences to Director A's Beneficiaries

Beneficiaries will now own part of the company which they may not want to run. Shares in the company are now part of Beneficiaries' estates and therefore is at risk from Divorce, Remarriage, Bankruptcy and Long Term Care. If the Beneficiaries decide to sell the business, the proceeds will enter their estates creating a potential IHT liability on their death.

Consequences to Director B

May not want to run company in partnership with Director A's Beneficiaries. May not have the funds to buy out Director A's share of the business.

Note: The effects of the above problems would increase considerably if the company share is a minority holding.

PLANNING - WILL ONLY

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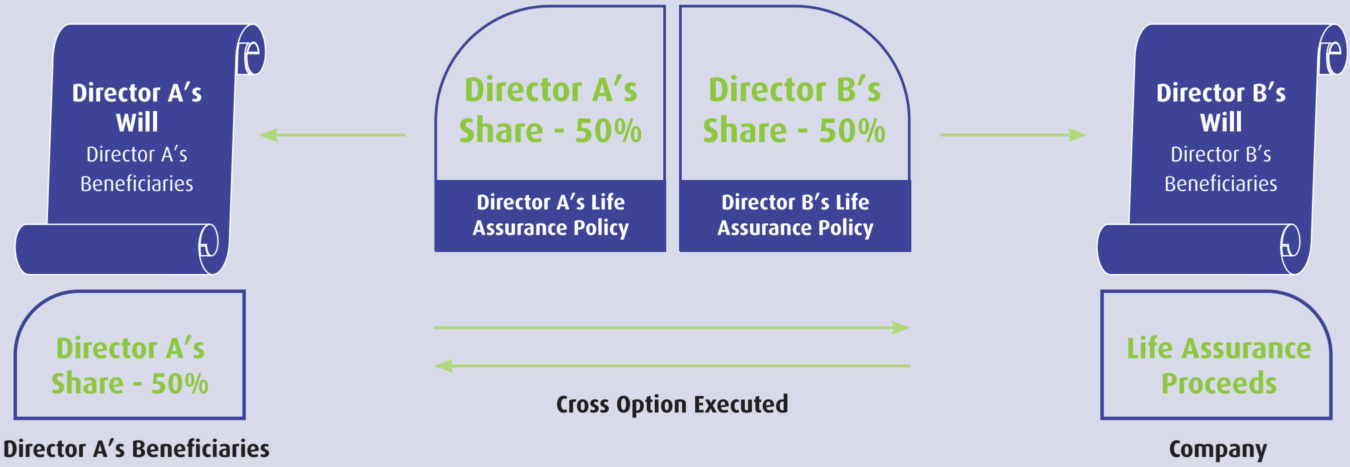

(i) Each Director leaves their share of the Business to their Beneficiaries via their Will.
(ii) Cross Option Agreement established to enable one Director to purchase the other Director's share of the business in the event of their death.
(iii) Family Life Assurance Policies taken out by the company in order to fund the purchase of the shares/partnership.
(iv) On the death of Director A, his share of the business passes through the Will to his Beneficiaries. The Life Assurance Policy pays out. The company can then execute the Cross-Option Agreement, using the Life Assurance proceeds to purchase Director A's share of the business.
(v) This results in Director A's Beneficiaries receiving the Life Assurance proceeds, and Director B owning 100% of the company.
(SEE DIAGRAM OVERLEAF)

OUR RESULT OF PLANNING

Director A's Beneficiaries	Family Life Assurance Proceeds	ABC Ltd 100% Share	**Director B**

Consequences to Director A's Beneficiaries

Beneficiaries now have the funds from the Life Family Assurance Policy.

These funds are now part of their estates and so will be assessable for Inheritance Tax when they die.

These funds are also at risk from claims from Divorce, Remarriage, Bankruptcy and Long Term Care.

Consequences to Director B

3rd Party Claims

Will now own 100% of ABC Ltd which is at risk from Divorce, Remarriage, Bankruptcy and Long Term Care.

IHT

Whilst trading, Business Relief is applicable. However if he sells the business, the cash proceeds will then be part of his estate and so will be assessable for Inheritance Tax when he dies.

CGT

On sale, the growth in Director B's share has increased and hence more CGT payable than necessary.

POTENTIAL TAX LIABILITY

Director A's Beneficiaries	£900,000 (Family Life Assurance Proceeds)	£1,800,000 Proceeds from sale of ABC Ltd	**Director B**

Example of potential Capital Gains Tax Liability

Let's assume business is eligible for Entrepreneurs' Relief so CGT rate is 10%. CGT payable on sale = £180,000.

Example of potential Inheritance Tax Liability

Director A and Director B each own 50% of ABC Ltd which is valued at £1,800,000. Director A dies leaving 50% of the business to his Beneficiaries. The Cross Option Agreement is executed resulting in £900,000 entering the Beneficiaries' estates.

When the Beneficiaries die the potential IHT bill on these funds is 900,000 x 40% = £360,000.

Subsequently, Director B decides to sell the business resulting in £1,800,000 entering his estate.

When Director B dies he leaves a potential IHT bill of £1,800,000 x 40% = £720,000 A combined Tax bill for the surviving director of £720,000 + £180,000 = £900,000.

The potential combined IHT bill = £360,000 + £720,000 = £1,080,000.

(See Key Features and Benefits Sheet 10: Cross Option Agreements 2/2 to see how much can be saved using our planning).

Please consider the information in Key Features and Benefits Sheet 22 to understand whether using Multiple Trusts may be applicable to your circumstances.

This sheet contains only general planning and is not to be construed as advice for any personal planning. Each strategy recommended is based on individual circumstances.

For more information please contact us on:

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