GUIDE TO

FINANCIAL PLANNING FOR BUSINESS OWNERS

Beyond the success and growth of your business

JULY 2024

GUIDE TO

FINANCIAL PLANNING FOR BUSINESS OWNERS

Beyond the success and growth of your business

Welcome to our *Guide to Financial Planning for Business Owners..*

As a business owner or company director, financial planning goes beyond the success and growth of your business—it's also about ensuring your personal financial security and preparing for your future. Navigating this complex financial landscape requires a tailored approach that considers your individual needs and business objectives. This guide delves into the key components of financial planning, specifically for those leading a business.

Business owners and company directors face unique financial challenges and opportunities. Personal finances are closely intertwined with business performance, adding layers of complexity to financial planning. Effective financial planning in this context demands balancing extracting value from your business with securing your financial stability.

Before diving into the planning process, it's crucial to understand the unique positions of business owners and directors. Your income may be variable, you might have significant funds tied up in the business, and your personal and business tax arrangements can be intricate. Additionally, your personal financial goals are often directly influenced by your business's performance.

If you run a business with other shareholders or partners, what would happen if one of you were to die prematurely? Where will the shares go? Who will you be running the business with—your partner's spouse, their children, or the state?

After dedicating years of your life to building a profitable business, it's only natural to want to pass it on to someone who will take equal care of it, whether that's a family member or a buyer. Have you made provisions for this and established a succession plan?

An estate plan accomplishes two important things: it ensures that someone you trust takes over your business when you're no longer able to, or it details how the business should be wound down. Clearly outlining your wishes also simplifies matters for your loved ones, reducing disruption to their lives and your customers' lives. What plans do you have in place for both scenarios?

Our financial planning guide for business owners addresses the various factors that need consideration in this process. You can create a solid financial foundation supporting your business and personal ambitions with the right planning and professional guidance. ●

SOLUTIONS ARE NOT ALWAYS CLEAR, WHICH IS WHY WE'RE HERE TO HELP

We provide comprehensive financial planning advice for business owners and entrepreneurs, allowing you to focus on what you do best—running your business. To learn more or to discuss your future vision, please contact us.

CONTENTS

BUSINESS MATTERS

Time to focus on the financial health of your business?

As a business owner, you may well have complex finances. With such a focus on building and running a successful business, you may struggle to give your finances – particularly your personal finances – the attention they need.

Starting a business can be exhilarating and overwhelming all at once. It's tempting to devote the lion's share of time and effort to developing your product or service, hiring the right people and finding customers and clients. But it's also important to focus on your business's financial health.

While many aspects of corporate financial planning are similar to handling personal finances, there are some important differences.

BUSINESS GOALS

Well-chosen goals and objectives point a new business in the right direction and keep an established business on the right track. Goals establish where you intend to go and tell you when you arrive. They help improve your overall effectiveness as a business, whether you want to increase your market share, for example, or improve your customer service.

The more carefully you define your goals, the more likely you are to do the right things and achieve what you want to accomplish in the first place. Objectives are the specific steps you and your business need to take to reach each goal. They specify what you must do – and when. Think of goals and objectives in this way. Goals tell you where you want to go, and objectives tell you exactly how to get there.

Goals can increase your effectiveness and objectives back your goals and make you more efficient. Goals are typically described in words, and objectives often come with numbers and specific dates.

Goal setting can follow many different processes, and each one can be successful if you define the long—and short-term goals and devise a plan for getting there. Determine your goals; be as specific as possible; commit to them; meet regularly to measure progress; hold yourself accountable to deadlines; and celebrate milestones and achievements.

EXPLORE FUNDING OPTIONS

Smaller business owners tend to self-fund or bootstrap, meaning personal funds are the owner's only or major source of capital. Putting money back into the business makes sense. Bootstrapping allows you to grow your business slowly and organically while ensuring the model is financially viable.

On the downside, you're not well-diversified. Using savings or credit cards for startup capital can put you at significant financial risk, depending on how capital-intensive your business is. It may be prudent to offset some of that risk by exploring one or more additional funding sources, including Venture Capital, Angel Finance, Insider Finance, Crowdfunding, Flexible Business Loans, Equity Crowdfunding, Asset Finance and Business Expansion Funding.

Fortunately, there are plenty of other places to obtain capital. Bringing in outside sources, such as offering equity and getting a good or service in return, business loans, customer pre-sales or recurring sales, can ensure a constant capital inflow.

CASH FLOW

A healthy cash flow enables you to meet current obligations, like paying employees and purchasing raw materials, while also building up a reserve for investments and emergencies. Amassing assets, like property or inventory, is great, but your business will stall if cash flow is a challenge.

Performing a formal cash flow analysis will tell you how much money is flowing in and out of your business. This knowledge allows you to plan accordingly. When you do these analyses regularly, you will gain a historical perspective and be able to determine the amount you should set aside as reserves to weather the leaner months or an unexpected cash flow shortage.

MANAGE TAXES

Going the do-it-yourself route may work for your personal finances, but tax planning can be far more complicated as a small business owner. Outsourcing tax planning and preparation to a qualified accountant or other financial professional who may be helping with your business will free up time, and that expertise may reduce your tax liability.

Corporate tax planning helps businesses to ease tax burdens and operate more smoothly and efficiently. Effective tax planning is essential if you are to minimise your tax bills. Business or Corporation Tax planning and Income Tax planning should go hand-in-hand.

BUSINESS PROTECTION

Every business needs to identify and mitigate risk, but it often falls to the bottom

HOLD YOURSELF ACCOUNTABLE WITH DEADLINES, AND CELEBRATE MILESTONES AND ACHIEVEMENTS..

More than half (56%) of the businesses in the UK are sole proprietorships.

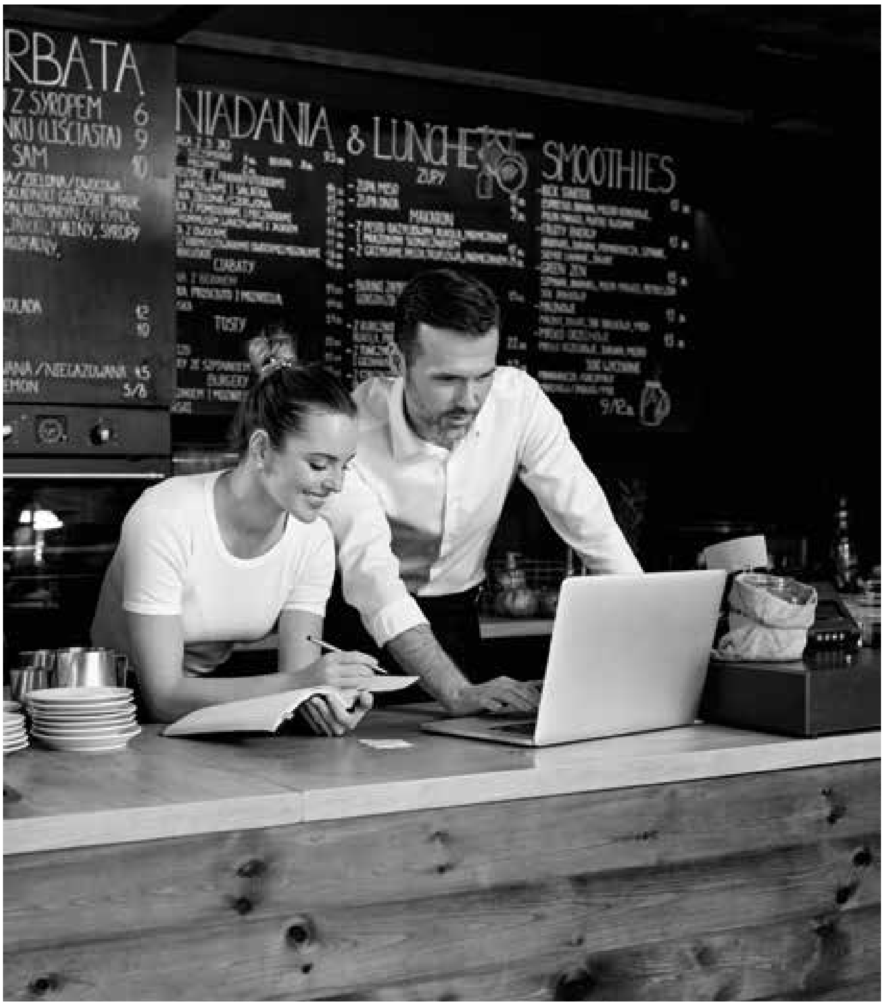
Total SME employment in 2023 was 16.7 million (around 61% of all private sector jobs).

There were just under 5.6 million private sector UK businesses – an increase of roughly 0.8% (or 54,000) from the previous year as of October 2023.

Of the UK's 5.6 million private sector businesses, just over 1.4 million had employees, and around 4.1 million had no employees (in other words, self-employed).

In 2021, 80% of SMEs were defined as family-owned businesses—up from 77% in 2020. Of the smaller enterprises, 82% of micro-businesses, 69% of small businesses, and 57% of medium-sized companies were considered family-owned.

Source data:
money.co.uk business-statistics



of the list simply because creating a plan that addresses all potential perils seems like a massive task. And yes, addressing every risk that could affect your business is virtually impossible. But you can narrow down the list and put safeguards in place, starting with financial protection.

Having adequate cover ensures the business has access to enough funds to continue trading by replacing key people and lost income, paying off creditors and repaying bank loans. It may also help protect against the effects of unknown issues that may arise.

PLAN FOR RETIREMENT

Whether you're a sole trader or the owner of a limited company, a pension can help

WHAT DO BUSINESS OWNERS NEED TO CONSIDER?

"Is most of the value of my business l ost if I walk away?"

"How do I extract profits from my business tax-efficiently?"

"When's the right time to sell the business?"

"Could I take a 'back seat' but still retain ownership?"

"How do I manage my succession planning?"

"How do I exit my business tax-efficiently?"

"How much do I need to set aside to provide for my family and retirement?"

"I have sold my business. What's next?"

And many more questions that we can answer for you.

you save for retirement while saving your taxes along the way. As a business owner, pension planning should be part of your overall planning for how best to finance your business and how to realise the value you have built up in it eventually.

Retirement planning is crucial for everyone, business owner or not. The tax regime surrounding pensions has been simplified in recent years, and you now have considerably more flexibility when it comes to funding your retirement. As with taxes, obtaining experienced professional financial advice involves discussing your options to create a plan suited to your business needs.

CREATE AN ESTATE PLAN

Proper estate planning helps to provide for your loved ones, business partners and employees who rely on your business, minimise tax exposure, and provide clear instructions on how the business should proceed. These plans are also critical in case you're incapacitated.

Owning a business is time-consuming. Your focus is on managing the day-to-day tasks while growing the business. There's little time left to think about anything else, especially what would happen if something happened to you. Not having an estate plan in place risks undermining a lifetime of work and jeopardising the livelihood of your family and business partners.

CREATE SUCCESSION AND EXIT PLANS

Consider these two different scenarios. In a succession, you're turning the reins of the business over to the next leader. In an exit, you are selling or shutting down the business. When deciding whether to sell, close or pass along the company you've built, you need to consider a number of factors.

On a personal level, are you ready to retire or find you're working too many hours? Are you simply no longer passionate about the business and ready to try something new? Answering these questions should provide clarity into your next steps.

EXIT PLAN

If you wish to sell your business, you need an idea of the value. In fact, even if you aren't looking to sell, it's always smart to have a ballpark idea of the business's market value. Establishing an exit plan early on in the life of your business is crucial if you're to extract the highest value from your investment of time and money. Exit plans are not static documents; however – they're fluid and should be reviewed as the company evolves.

This ensures that plans remain achievable and provide the best chance of securing the highest return on sale, whether the business is intended to provide an income until retirement or you intend to sell your company sooner rather than later.

SUCCESSION PLAN

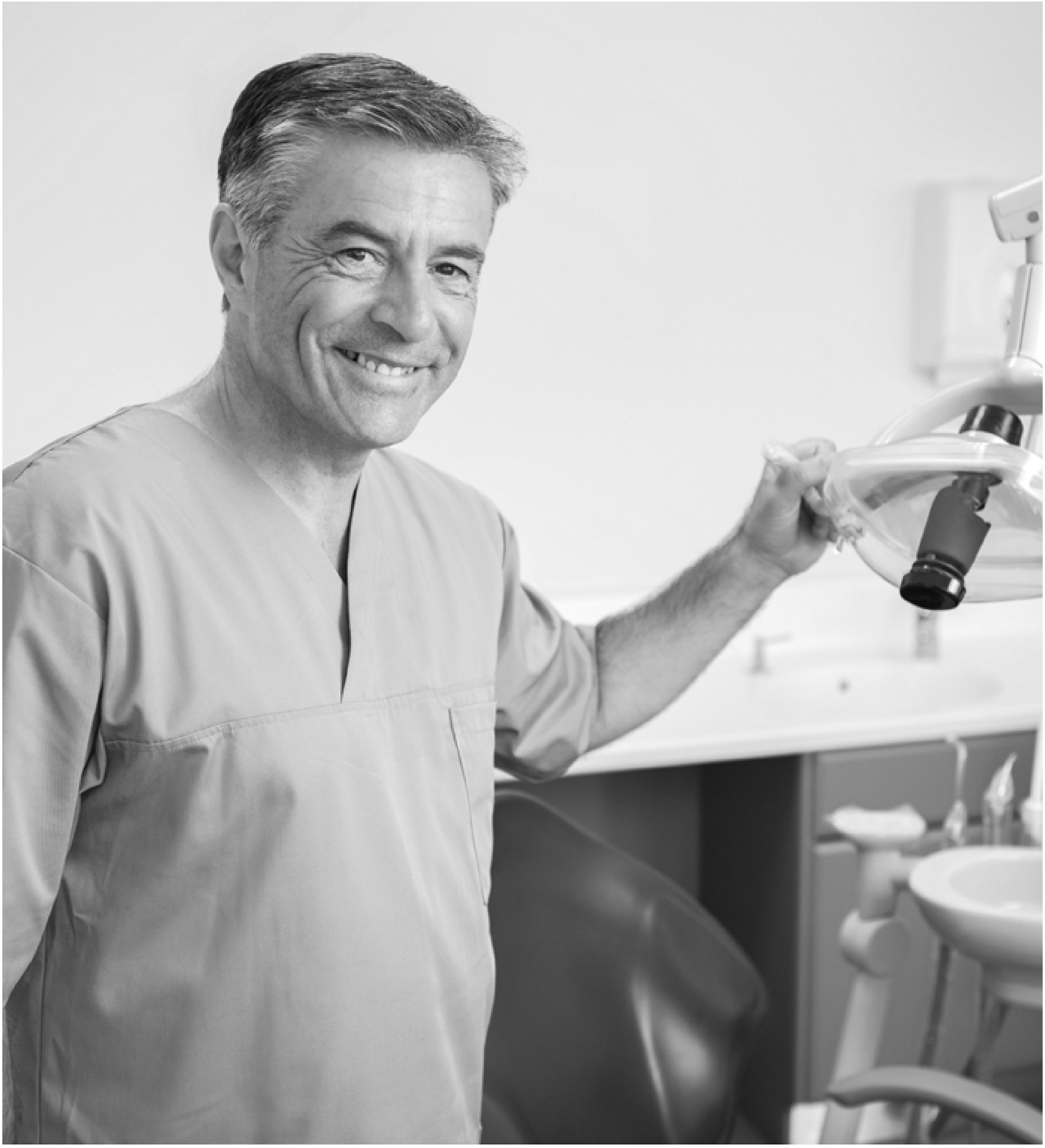
Succession planning is becoming increasingly critical for all businesses. It is the process of identifying and developing potential future leaders or senior managers, as well as individuals who could fill other business-critical positions, either in the short or the long term. The aim is for organisations to have greater visibility of individuals who are interested in effectively filling key and/or new roles.

The process of succession planning is critical to ensuring your business can continue to thrive when key people leave. A well-thought-out succession plan reduces the risk of significant disruption when you lose senior personnel. Without a succession plan, businesses can find themselves without adequate management and leadership where it is needed most. ●

“

EVERY BUSINESS NEEDS TO IDENTIFY AND MITIGATE RISK, BUT IT OFTEN FALLS TO THE BOTTOM OF THE LIST SIMPLY BECAUSE CREATING A PLAN THAT ADDRESSES ALL POTENTIAL PERILS SEEMS LIKE A MASSIVE TASK.

”



FINANCIAL PROTECTION

How to recover quickly and minimise the impact should the worst happen

Whether you've been in charge of a successful business for several years or have only recently started up your own enterprise, it's important to understand the challenges and potential pitfalls and to think of ways of minimising their impact.

How much is a key employee worth to a business? And how would, or could, that business cope without them? Many private businesses rely on one key person. Financial protection is vital to allow your business to recover quickly and minimise the impact should the worst happen.

KEY EMPLOYEES ARE VITAL TO A BUSINESS

Business protection helps to protect a business should a director, partner, member or key employee suffer a critical illness, become unable to work due to a disability or die prematurely. It helps to make things right when things go wrong. Key employees are vital to a business.

There are several different types of business structures in the UK, all governed by different rules that determine the business's legal status and how it is run. These rules include the amount of tax you pay, who is entitled to the profits, and who is liable for any debts run up by the business.

TYPE OF BUSINESS AND ITS PARTICULAR NEEDS

Business protection is available for partnerships (including limited liability partnerships), shareholders, sole traders and key employees. It can also be used to ensure repayment of a business loan in the event of the death or critical illness of a partner, key person or sole trader. How the arrangement is set up will depend on the type of business and its particular needs.

Losing one or more of your key employees can cause disastrous problems. Sales may be lost. Credit can become more difficult to obtain. Profits may shrink. Momentum may be lost. Also, hiring and training a replacement will cost you time and money.

PROTECTING BUSINESSES EVERY STEP OF THE WAY

Most astute business owners insure physical assets from destruction. But when it comes to a business owner's most valuable assets – key employees – many forget to take the same precautions. Whatever type of operation you run, if successful, will grow and evolve over the years. If you're just setting up your first business, the challenges you face may be very different from those you may encounter ten or twenty years later.

To help you understand more about these risks, consider these key areas:

KEY PERSON INSURANCE

This is designed to compensate a business for the financial loss brought about by the death or critical illness of a key employee, such as a company director or other integral staff member. It can provide a valuable cash injection to the business to aid a potential loss of turnover and provide funds to replace the key person.

You cannot replace the loss of a key person, but you can protect against the financial burden such an event may cause. Without the right cover in place, you could also risk losing your business. Key person insurance can be utilised in several different ways – for example, to repay any loans taken out by the key person, to help recruit and fund the training costs for replacement staff, to meet the ongoing expenses while the level of sales recovers; or to facilitate payments for outside consultants or expert advice that may be required.

Whatever the key person does, their loss could have disastrous consequences. Some of the problems your business may face are:

- Loss of profits
- The need to recruit or train a replacement
- Loss of important personal or business contacts
- Difficulties in meeting existing loan repayments
- Loss of confidence from suppliers and customers
- Difficulties in raising new finance for new developments
- Loss of detailed knowledge of the business's processes and systems
- Having to repay a loan the key person has made to the business
- Loss of goodwill

Businesses need to be insured, but covering the risk of losing a key employee is not legally required. Because of this, it's easy for businesses to overlook this protection. But remember, your employees are your most valuable asset.

SHAREHOLDER AND PARTNERSHIP PROTECTION

This provides an agreement between shareholding directors or partners in a business, supported by life assurance, to ensure that there are sufficient funds for the survivor to purchase the shares.

It is designed to ensure that the remaining partners or directors retain control of the business, but the value of the deceased's interest in the business is passed to their chosen beneficiaries in the most tax-efficient manner possible.

The shares might pass to someone without knowledge or interest in your business. Or you may discover that you can't afford to buy the shareholding. It's even possible that the person to whom the shares are passed becomes a majority shareholder and is in a position to sell the company.

The shareholding directors or partners in a business enter into an agreement that does not create a legally binding obligation on either party to buy or sell the shares but rather gives both parties an option to buy or sell. For example, the survivor has the option to buy the shares of the deceased shareholder, and the executors of the deceased shareholder have the option to sell those shares.

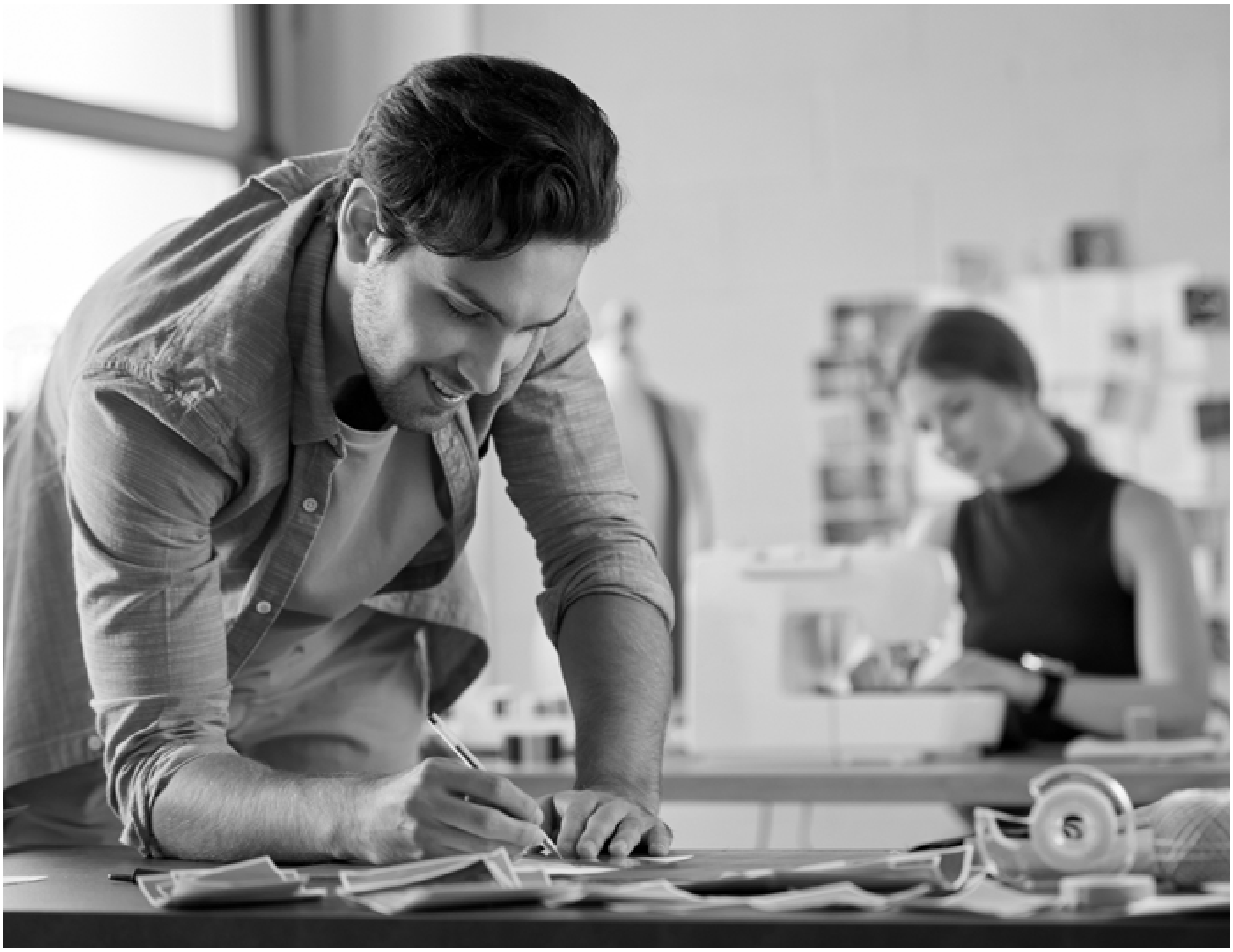
In either case, the exercise of the option creates a binding contract; there is no binding contract beforehand. This type of agreement is generally called a 'cross option' agreement.

CROSS OPTION AGREEMENT

This is also known as the 'double option' or 'put and call' agreement. By taking out a cross-option agreement, you will determine what will happen to the shares in the business if one of the owners dies or becomes critically ill. This agreement mustn't be binding regarding the sale of the shares because this will prevent you from claiming relief from Inheritance Tax.

OTHER PROTECTION OPTIONS AVAILABLE

There are various options to choose from, including life cover only, critical illness cover, or combined life cover and critical illness cover. You can select different levels of cover and terms depending on your specific requirements, and policies are available that pay out a regular income in the event of sickness.



KEY PERSON CRITICAL ILLNESS COVER
Pays a tax-free sum of money to key employees or the business owner in the event of a specified or serious illness, such as a heart attack or stroke.

KEY PERSON INCOME COVER
Protects key individuals by paying their salaries while they're unable to work.

KEY PRIVATE HEALTH INSURANCE
Funds private healthcare for key employees. As an extra benefit of employment, it could help them return to work more quickly after an illness by paying for rehabilitation treatment.

BUSINESS LOAN PROTECTION
With business loan protection, owners, partners, or directors can ensure the size of any outstanding debt, and in the event of their death, this debt will be repaid. The larger the debt, the higher the premiums will be, but this is one of the cheapest forms of business protection insurance for simple life cover.

When a business borrows money from a bank or other financial institution, it is common that it will want some form of protection cover to repay all or some of that loan on the death of a key person. It could also be that the business owners have lent money to their own businesses.

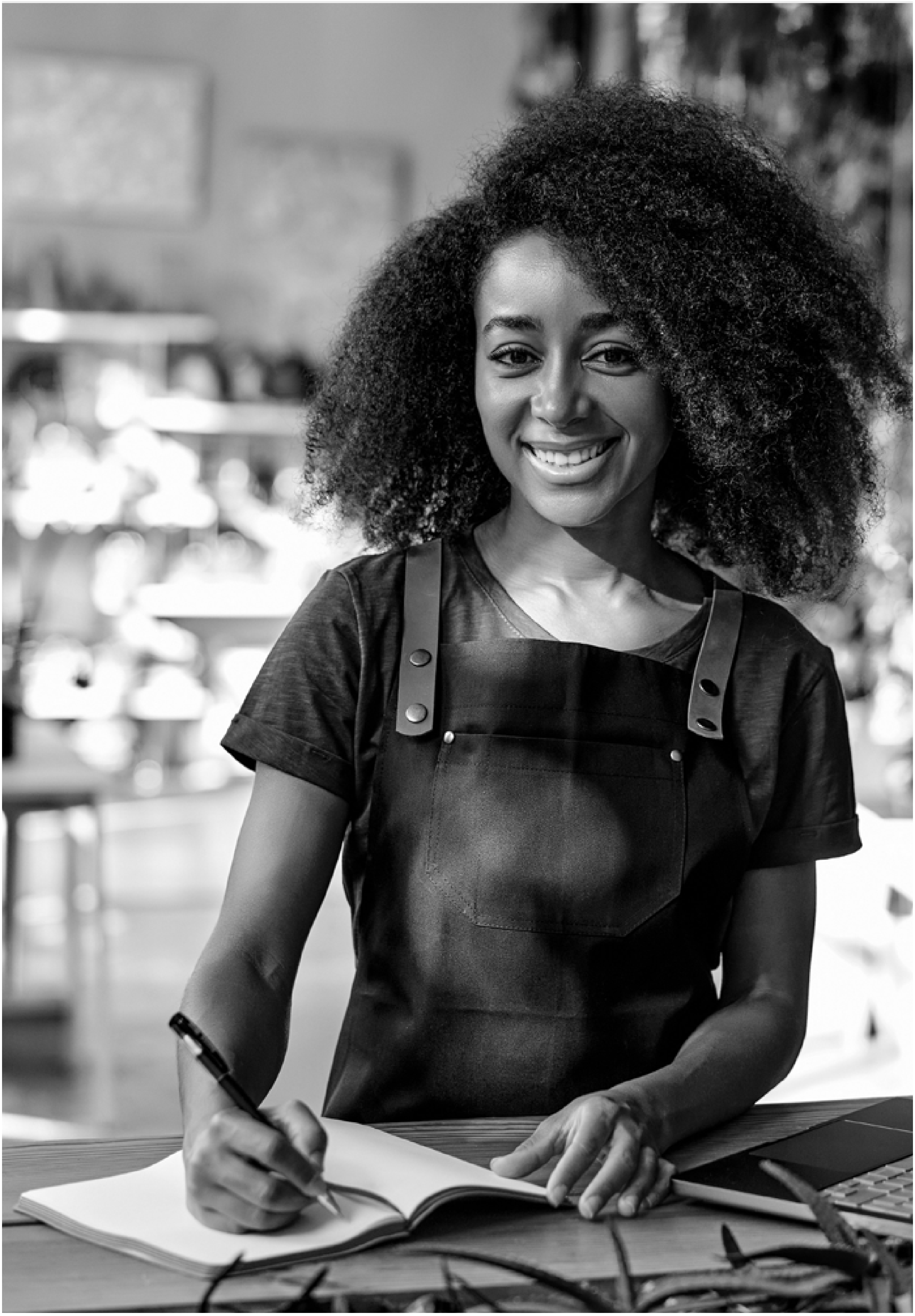
These are called 'director's, or partner's, loan accounts' and must be repaid on death. Financial protection is vital in the current economic environment to ensure a business can repay corporate loans should the worst happen.

RELEVANT LIFE COVER
A relevant life policy is an alternative way for an employer to set up life cover for a key employee tax-efficiently, without using a registered death in service group life scheme to benefit the employee's dependents.

CALCULATING THE LEVEL OF COVER REQUIRED
The cover required is typically measured by reference to the key person's contribution to the business's profits. This may be based on the following information: past profits and projections for the future; the effect that the loss of the key person would have on future profitability; the anticipated cost of recruiting and/or training a replacement; the expected recovery period, for example, the length of time before a replacement is effective; and the amount of any loan(s) that would be called in on the death of the key person.

The death or prolonged illness of a business partner, key employee or shareholder could put your business under considerable financial strain. No one can predict what will happen in the future, but you can ensure that you have the right protection to keep your business successful should the worst happen. ●

“NO ONE CAN PREDICT WHAT WILL HAPPEN IN THE FUTURE, BUT YOU CAN ENSURE THAT YOU HAVE THE RIGHT PROTECTION TO KEEP YOUR BUSINESS SUCCESSFUL SHOULD THE WORST HAPPEN.”



PLANNING FOR YOUR RETIREMENT

Tax benefits could make a big difference to your future wealth

You've nurtured your business, but have you paid the same attention to your retirement plans? Some business owners focus a lot of time and energy on making plans for the future of their business, but when it comes to their personal financial future, many discover they are ill-prepared.

MY BUSINESS IS MY PENSION

Pensions are not always popular with business owners. Often, you'll hear a business owner say the common phrase, 'My business is my pension.' While that may be true, a pension should still form part of a safety net in case the business doesn't succeed as planned. Why put all of your eggs in one basket? Have at least two options: your business and a pension on the side.

Sometimes, the business may not provide the level of income you need, and you could have to work far later in life than you'd ideally like to. By shunning pensions, you're missing out on some significant tax benefits that could make a big difference in the amount of money you eventually have. So, having all your eggs in one basket can be risky.

FLEXIBLE WAYS TO SAVE FOR YOUR RETIREMENT

If you own a limited company, pension contributions can be treated as an allowable business expense, helping offset your company's Corporation Tax bill. Pension contributions can also be tax-efficient in taking money from your business. If you plan to sell your business to fund your retirement, making the most of pension allowances is wise. They can help reduce Capital Gains Tax when your company is sold.

Auto-enrolment has pushed employers to provide a pension for their employees, but as a business owner, you may want more flexibility in how you save for your retirement. So, what are some of your options?

HOLDING THE PROPERTY FROM WHICH YOU RUN YOUR BUSINESS

Self-Invested Personal Pensions (SIPP) and Small Self-Administered Schemes (SSAS) offer the ability to invest directly in UK commercial property. As a business owner or if you are self-employed, this flexibility may be particularly beneficial as your pension can hold the property from which you run your business.

Most SIPP and SSAS providers permit the purchase of commercial property, such as offices, retail units, and factories. However, you cannot generally invest in residential property, such as houses, flats, holiday homes, and holiday lets.

SELF-INVESTED PERSONAL PENSION (SIPP)

A Self-Invested Personal Pension provides more control over your pension fund. You'll be able to make investment decisions yourself, or you can get professional help.

Essentially, a SIPP is a pension wrapper capable of holding a wide range of investments and providing the same tax

“

AN EPP CAN FORM THE CORE OF A BENEFITS PACKAGE TO ATTRACT, MOTIVATE AND REWARD KEY EXECUTIVES.

”

advantages as other personal pension plans. However, they are more complex than conventional products, and you should seek expert, professional financial advice.

SIPPs allow you to choose your own investments or appoint an investment manager to look after the portfolio on your behalf. Individuals have to appoint a trustee to oversee the operation of the SIPP, but having done that, the individual can effectively run the pension fund independently.

You can choose from a number of different investments, unlike other traditional pension schemes, which may give you more control over where your money is invested. A SIPP offers a range of pension investments, including cash, equities (both UK and foreign), gilts, unit trusts, OEICS, hedge funds, investment trusts, real estate investment trusts, commercial property and land, and traded endowment plans and options.

There are two broad approaches to holding your business premises/ commercial property in a SIPP. One is the equity release model, where your business can place premises already owned into the SIPP, effectively exchanging the pension fund already accumulated for the property itself. The other is the funded purchase model, where the property is purchased using the pension fund(s) and placed directly into the SIPP.

Both approaches allow for the SIPP to borrow up to 50% of its net value to fund the purchase and are based on the rules governing SIPPs, allowing for commercial property to be held directly as an investment, including a company's own premises. In both cases, you, as the business owner, can invest as much or as little of your SIPP in a property as you choose.

Both models also allow the SIPP to borrow up to 50% of its net value to fund the purchase if the pension savings are insufficient, with the rental income used to cover the borrowing repayments. Once invested in your pension, the funds grow free of UK Capital Gains Tax and Income Tax.

SMALL SELF-ADMINISTERED SCHEME (SSAS)

A company's Small Self-Administered Scheme (SSAS) gives directors immediate control over former and existing pension funds, which can be invested in their business or property. The SSAS is a pension scheme usually established through a limited company on a defined contribution basis. These pensions are generally set up for the retirement benefit of company directors, family employees, and key personnel.

The SSAS is run by its Trustees, who can be members of the scheme, with contributions made to it by the members and/or the employer. It has similar traits to the SIPP but offers its members more control and flexibility.

The SSAS's tax and investment benefits are potentially significant for business owners. As with all pension schemes, there are options such as taking a tax-free lump sum and an income in retirement. However, this particular pension has additional benefits available.

Buying and holding commercial property and land within an SSAS is a potentially attractive option, adding security and tax benefits. Within the SSAS, assets are sheltered for future generations and potentially protected from Inheritance Tax.

The loan back is another unique feature of the SSAS that allows you to loan up to 50% of the value of your pension to your company for any use. For example, a business owner could use the funds in their pension for stock acquisition in your company or, if needed, a simple capital injection.

A SSAS provides the key essentials of wealth management and business growth: the flexibility and control over money in your pensions for immediate use today, regardless of age. The ability to set up a company SSAS pension is exclusively accessible to those who operate as directors of their own limited trading companies.

Once established, an SSAS pension can invest in all the areas allowable through a traditional pension scheme, such as stocks and shares, commodities, corporate bonds, and gilts, and it gives members vast additional powers and opportunities.

Up to 11 members can be invited to join the company SSAS. Members act as trustees (Member Trustees) of the scheme. This is usually alongside corporate or professional trustees appointed by the scheme to ensure that any transactions made by the pension scheme adhere to HM Revenue & Custom rules and regulations. This is extremely important to help you avoid potentially significant tax penalties.

EXECUTIVE PENSION PLAN (EPP)

Executive Pension Plans (EPPs) are tax-efficient savings plans set up by the company for key employees. The employer (and sometimes the employee) pays into the plan to build a tax-efficient fund, which is used at retirement to provide tax-free cash and a pension income. In effect, EPPs are money purchase occupational pension schemes and operate, for the most part, like any other pension scheme.

EPPs are normally established by company directors or other valued employees for their own benefit. From an employer's perspective, an EPP can form the core of a benefits package to attract, motivate and reward key executives, plus the financial benefits of contributions being allowable as a business expense and able to be set against taxable profits. Furthermore, there is no National Insurance Contributions (NICs) liability, so extra pension contributions into an EPP can be made instead of salary increases.

The pension fund is set up under trust, and the trustees are responsible for its day-to-day administration, such as ensuring contributions are paid regularly and benefits are paid out promptly.

There is flexibility in retirement for the individual, allowing the person to retire early and hand over to others (although benefits can only be taken currently from age 55 (rising to 57 from 2028, unless a protected pension age exists which allows benefits to be taken earlier) or to work well past the company's normal retirement date). ●

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

ONCE MONEY IS PAID INTO A PENSION, IT CANNOT USUALLY BE WITHDRAWN UNTIL YOU ARE AGED AT LEAST 55 (INCREASING TO 57 FROM 2028).

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

SUCCESSION PLANNING

Preparing yourself, your family and your business for the future

The operational demands of running a family business or other closely held enterprise can be all-consuming, but business leaders must take the time needed to assess their organisation's business succession planning.

After pouring years of your life into building a profitable business, it's natural that you'll want to pass it on to someone who will take equal care of it, whether a family member or a buyer. That's why succession planning is so important.

In the context of your business, succession planning is the process that ensures a smooth transition of ownership from you to someone else so that a new owner can continue to pursue your company's goals.

WHY IS SUCCESSION PLANNING IMPORTANT?

A succession plan can help you leave the business without negative repercussions, secure your legacy at the company, ensure a seamless transition to new management and reassure employees and stakeholders.

WHAT ARE YOUR SUCCESSION PLANNING OPTIONS?

The three most common options are:

1. Keeping the business in your family
You might want to pass on your business to a family member, such as an adult child. While this option has many benefits, the relationships and emotions involved can make objectivity difficult, so it can help to involve an external adviser who can remain impartial.

2. Selling the business
It can be difficult to find a buyer with the skills and expertise to run your business and the inclination to do so. However, once you find them, this option can be profitable and strategically successful.

3. Management buyout (MBO)
Another option is for your company's managers to become owners by raising the finances together. This can be the best way to ensure the continuity of your business's progress towards its goals as the same team continues operating it and serving customers.

> "AFTER POURING YEARS OF YOUR LIFE INTO BUILDING A PROFITABLE BUSINESS, IT'S NATURAL THAT YOU'LL WANT TO PASS IT ON TO SOMEONE WHO WILL TAKE EQUAL CARE OF IT, WHETHER A FAMILY MEMBER OR A BUYER."

HOW CAN YOU ENSURE SUCCESSFUL SUCCESSION PLANNING?

A successful succession plan takes time and dedication. It will be unique to your business. But all good plans involve the following steps:

GOAL SETTING

Consider your personal goals and the goals of the business. You may have shareholders or other stakeholders whose goals you must consider.

TIMELINE PLANNING

You need to establish the date you're working towards, which may be definite, such as your retirement at a specific age, or indefinite, such as your eventual death.

COMMUNICATION

Keep your employees, customers and clients informed. When people feel 'out of the loop', they get uneasy, and you may lose them.

SEEKING PROFESSIONAL ADVICE

You'll likely only create a succession plan once. So, to maximise your chances of success, speak to a professional adviser who's helped other businesses create theirs. An expert's perspective provides insights you may not know and keeps your plans on track.

SUCCESSION PLANNING CHECKLIST

Working without a succession plan for a business can invite disruption, uncertainty and conflict and may endanger your future competitiveness.

DO YOU KNOW THE ANSWERS TO THESE TEN QUESTIONS?

1. Have you defined your personal goals and vision for transferring ownership and management of the company?

2. Do you have an identified successor in place?

3. If applicable, have you resolved the family issues often accompanying leadership and ownership decisions?

4. Does your plan include a strategy to reduce estate taxes?

5. Will there be sufficient liquidity to avoid the forced sale of the business?

6. If succession will one day require the transfer of assets, have you executed a 'buy-sell' agreement that details the process ahead of time?

7. Is there a detailed contingency plan in case you die or cannot continue working sooner than anticipated?

8. Have you identified and considered alternative corporate structures or stock-transfer techniques that might help the company achieve its succession goals?

9. Have you determined whether you or anyone else will depend upon the business to meet retirement cash flow needs?

10. Have you recently had the business valued and analysed in the same way potential buyers and competitors would? ●

ESTATE PLANNING AND INHERITANCE TAX

Don't jeopardise the livelihood of your family and your business partners

Owning a business is time-consuming. Your focus is on managing the day-to-day tasks while growing the business. There's little time left to think about anything else, especially what would happen if something happened to you. Not having an estate plan in place risks undermining a lifetime of work and jeopardising the livelihood of your family and business partners.

It's highly likely that a significant portion of your and your family's wealth is tied up in the business. Although it's not something we like to think about, securing their future is dependent on you having an appropriate estate plan that details what happens to your business if something unfortunate happens and you die prematurely.

AVOID UNNECESSARY AND COSTLY LEGAL DIFFICULTIES

An estate plan accomplishes two things: it makes sure that someone you trust takes over your business when you're no longer able to, or, if not, it details how exactly it would be wound down. And, as your wishes are clearly outlined, it also simplifies things for your loved ones, reducing disruption to their and your customers' lives.

It's important to make your wishes clear in your estate plan to avoid unnecessary and costly legal difficulties down the line. Your estate planning documents cover who is entitled to parts of your estate upon death or who should run your business if you cannot.

OUTLINING EXACTLY HOW YOU'D LIKE YOUR SHARES DISTRIBUTED

It cannot be stressed enough how important having a Will is; otherwise, your business will be divided up according to intestacy laws. This means that your shares will pass on to your closest relatives, often split between your spouse or registered civil partner and children. If you don't have a spouse or registered civil partner or children, shares and assets will pass to other relatives such as parents, siblings, nieces, or nephews.

This could make things difficult as they would be responsible for making business decisions or selling their shares. This would result in any business partners having to buy them out, or if not, the business could be sold or even broken up entirely. So, having a Will that outlines exactly how you'd like your shares and other assets distributed is vital to reducing additional problems and disruption.

APPOINTING SOMEONE TO MAKE DECISIONS ON YOUR BEHALF

Most business owners know they need a Will, but not many know it's also important to have a Lasting Power of Attorney (LPA) in place. This allows you to appoint someone to make decisions on your behalf, called an 'attorney' if you were to lose mental capacity through an accident or illness.

In that situation, your assets, such as any bank accounts, including joint bank accounts, would be frozen, and legislation means that a company director automatically ceases to be a director if they lose their mental capacity.

Having a LPA in place enables your attorney to make decisions that affect your business and access funds your family needs. Without one, an application has to be made to the courts to appoint a deputy. This can take months and incur additional legal fees.

INVOLVEMENT IN THE DAY-TO-DAY RUNNING OF THE BUSINESS

Trusts are a useful tool for dealing with some of the above-mentioned issues. For instance, you may not want your beneficiaries to inherit business interests directly, but if you put your business interests into a trust, they can still benefit from the shares (i.e. still receive the dividend income) but won't have any involvement in the day-to-day running of the business.

A trust is also useful if you become ill, incapacitated, or even retire, as you can pass control of the company to the trustees (who could be fellow business owners), and your company will continue to earn money for you and your family.

Unquoted shares in your business can receive up to 100% relief from Inheritance Tax if they qualify for Business Relief. Structuring your Will correctly and placing your shares in a trust can mean your beneficiaries avoid paying taxes on those shares.

HOW TO KEEP BUSINESS ASSETS WITHIN THE BLOODLINE

Next, you must address any issues this might cause in a family-owned business. It's not uncommon for one child to want to take over the family business, whereas others have no interest in doing so. There's also the problem of ensuring your spouse is still supported if ownership is passed to your children. And the further issue of how to keep business assets within the bloodline if you wish.

Ordinarily, if you give all assets to one child, those will be jointly owned between them and any spouse, meaning other children and their grandchildren wouldn't benefit."

Or it may be the case that none of your family wants to be involved in the business, but you'd still want them to receive an income from it. Whatever the circumstances, we can create an estate plan that helps you smoothly transition ownership of your family business.

FUNDING A SALE BY TAKING OUT LIFE INSURANCE POLICIES

Managing what happens to your shares when there are multi-owners can be complicated. One way to navigate this is to use a 'cross option agreement', which is an agreement between all shareholders of a private limited company.

Each shareholder gives the other shareholders the right to buy their shares in the event of their death. The sale can be funded by taking out life insurance policies for the other option holders. This means business partners can avoid complications by having unwanted new shareholders and also provide beneficiaries with an income at the same time.

You should keep your plan updated to ensure it reflects your wishes and stays abreast of legislation changes. A new marriage or birth of grandchildren could change how you want your estate divided or what happens to your business. And inheritance laws change all the time. Ensuring your plan is updated will ensure you can take advantage of those changes.

BUSINESS RELIEF (BPR)

Business Relief (BR) is a valuable Inheritance Tax relief if you're a business owner. It could provide up to 100% relief when you die if you have owned the business for at least two years. Even if you don't own your own business, investing in a trading company can also be a useful way of mitigating Inheritance Tax.

For deaths and transfers on or after 6 April 1996, the categories of property which are capable of qualifying as relevant business property are broadly as follows with rate of relief:

- A business or interest in a business: 100% relief
- Control holdings of unquoted securities in a company: 100% relief
- Unquoted shares in a company: 100% relief
- Controlling holdings of quoted shares in a company: 50% relief

“

HAVING A LPA IN PLACE ENABLES YOUR ATTORNEY TO MAKE DECISIONS THAT AFFECT YOUR BUSINESS AND ACCESS FUNDS YOUR FAMILY NEEDS.

”

- Land, buildings, machinery or plant owned by the deceased and used by a company controlled by the transferor or by a partnership of which the transferor was a member: 50% relief
- Land, buildings or machinery used in the business and held in a trust that it has the right to benefit from
- (This applies to lifetime transfers only): 50% relief

There are some circumstances where BR would not be available. For example, the following businesses do not qualify if more than half of their business involves dealing in stocks and shares, dealing in land or buildings, or making and holding investments.

BR is a worthwhile consideration if you're a sole trader, partner or shareholder and have owned the relevant business property for over two years. Therefore, it is possible to take advantage of BR even if you're not a business owner.

Since 2013, AIM-listed shares have also been able to be held within an Individual Savings Account (ISA), which means that investors can hold BR-qualifying shares and benefit from the tax efficiencies of an ISA. BR-qualifying investments do not use the Inheritance Tax nil-rate band, meaning you can use this band on less liquid assets that are difficult to place outside the estate for tax purposes.

Essentially, BR reduces the value of a business or its assets when determining how much Inheritance Tax to pay, and owners can get relief of either 50% or 100% while still alive or as part of a Will.

Please note that AIM-listed shares are high risk and can fluctuate widely in value.

Your capital is at risk – your investment can fall as well as rise in value so you could get back less than you invest. In addition, because AIM-listed companies tend to be smaller, more volatile and subject to less stringent checks than those quoted on the main London Stock Exchange, the risks are greater.' ●

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION, ESTATE PLANNING, AND TRUST ADVICE AND WILL WRITING. TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING.

INFORMATION PROVIDED AND ANY OPINIONS EXPRESSED ARE FOR GENERAL GUIDANCE ONLY AND NOT PERSONAL TO YOUR CIRCUMSTANCES, NOR ARE INTENDED TO PROVIDE SPECIFIC ADVICE.

TAX LAWS ARE SUBJECT TO CHANGE AND TAXATION WILL VARY DEPENDING ON INDIVIDUAL CIRCUMSTANCES.

IN CONCLUSION

Achieving your commercial and personal goals while safeguarding your business

Business financial planning is essential for achieving your commercial and personal goals while safeguarding your business. As a business owner, you may possess substantial financial assets but lack the time to ensure your wealth works as hard as you do. Alternatively, you might be considering an exit strategy for a business you've dedicated many years to building.

We offer holistic financial planning tailored specifically for business owners. Our team provides strategic advice and practical plans to manage your wealth before, during, and after the sale of your business. Our highly qualified wealth planning experts offer forward-thinking advice on business continuity and exit strategies, including pension and retirement planning, tax mitigation, financial protection, and succession and estate planning.

Whether you want to optimise your current financial situation or plan for a future transition, we are here to help. For further insights and personalised guidance, please contact us. ●

"AS A BUSINESS OWNER, YOU MAY POSSESS SUBSTANTIAL FINANCIAL ASSETS BUT LACK THE TIME TO ENSURE YOUR WEALTH WORKS AS HARD AS YOU DO."

READY TO EXPLORE THE MOST ADVANTAGEOUS AND TAX-EFFICIENT METHODS TO PROTECT YOUR BUSINESS AND PERSONAL WEALTH?

We specialise in helping our clients meticulously plan, organise, and protect their business and personal finances.

Contact us today to assess your current financial status and explore the available strategies tailored to your needs.

Published by Goldmine Media Limited, 124 City Road, London EC1V 2NX.

goldmine media