

Financial Planning for Business Owners



**Do you want to maximise the value of
your business and your personal net
worth? ...**

**Do you want to provide an appropriate
level of protection for your family? ...**

**Do you have an open mind to fresh
ideas? ...**

The Business World in The UK Today



The shape of UK business is changing. In the working population of 31.4m (ONS February 2016), the number of employees is growing slowly as more and more people are now in business for themselves. With a total of 4.66m, there are now nearly 1 million more self-employed people (ONS February 2016) than in 2010. In all, around two million new businesses have been formed during this period.

The profile of people starting and running businesses has changed. For example, there has been a big rise in the number of people over 50 going into business, and more women than ever before now run their own businesses, increasing by 2% a year in recent years. (Source: House of Commons Briefing Paper, 28th May 2015.)

Slowly, over the past few decades, the tax rules have changed. There are some favourable tax positions for you if you are self-employed or a business owner; but only if you get your tax structures right.

The retirement picture has also significantly altered. Individuals are also now living longer (the average age at death has increased by nearly 5 years over the past 25 years and the nature of the retirement period is different. Put simply, retirement requires a far greater sum than it ever did!

People who go into business under their own steam will typically see their business as part of their retirement plan; the success of their business will have a direct knock-on impact to the quality of their retirement.

Then as we all know, the result of the recent referendum has introduced further elements of economic and political uncertainty.

The country is definitely open to business, opportunities abound and the real issue is to position yourself to make the best of them.

Forward Planning for Success

There are a variety of business owner types. Amongst them there is one type that has more opportunities (and problems) than the others and they are the Directors of Close Companies. They both control the day to day management of their businesses AND they own the majority of the shares in it.

It is clear that a business's and its owner's finances are entwined; one relies on the other. So, if you really wish to become wealthy, you need a plan or strategy that **maximises** the growth of all the things from which you could actually benefit and that you can influence advantageously, irrespective of whether you actually own them.

As the business owner, your time is best spent running it. Often you have little time to consider forward planning. Your accounts often do not appear until after the trading year has ended. Yet there is considerable potential to increase the value of both the business and your own personal net worth with some foresight and forward planning.



Consider some of the most important business requirements as via these, we can show how financial planning can help:-

- In a successful SME, the company will rely on its owner's efforts for its revenue and profits. The fortunes of the business will be closely connected to the owners' well-being. Likewise, the owner's families are likely to be reliant on the business 'by association'. The way in which you decide to take your income will affect the net amount you receive from the same value in £s of pre-tax earnings in your business.
- conflicting personal remuneration priorities exist like shall I have a good salary today or a larger lightly-taxed capital gain tomorrow'?
- The Tax affairs of owners, their dependents and the business all overlap. The decision on what legal structure to use - a sole trader, a limited company, a partnership and/or a limited liability partnership is a crucial one that will have an impact on taxes paid by all concerned.
- There are a number of ways you could exit your business
 - A sale - possibly earlier than anticipated for a variety of good and bad reasons
 - Unfortunately, you could turn out to be one of the one in 3 that fall critically ill at some stage in their life
 - Tragically you may be carried out in a box

If you are not immortal, then it may be prudent to consider "catastrophe planning" against the last two possibilities. At least your family is then protected from the financial consequences of a forced exit. And in the first, you can radically change how the profits of a lifetime's work are taxed. This is worth a bit of thought!

Now how will you resolve all of these questions?



What is Financial Planning

This can have different meanings depending on whom you talk to:

- an accountant will understand it as budgets, expected cash flows etc.
- aa IFA who will want to sell you policies connected with the business.

Traditionally it has been considered as an **individual** practice; one that works for individuals and their families and worked out person by person. It can be used in business on the same basis. What tends to result is a set of unconnected 'advice' dots. And the real value comes when they are connected. Now you have a plan that is truly optimal.

Our planning makes these connections. First we get a detailed understanding of your situation, your dependents' situations, your current business position and your aspirations for it. Then we use this to create an overall Plan. This makes the best use of all your resources.

I assume you are serious about creating opportunities to increase your personal net worth and the value of your business over the years ahead. Who will help you?

- You could you ask your accountant? Good idea but their role is often limited to the historical reporting, filing with HMRC and general compliance. Do they understand your personal affairs and needs?
- You could ask an Independent Financial Advisor? Many advisors are legally restricted in what advice they can offer. They focus on the person and tend to offer a very limited form of advice. They may well have limited knowledge of business and personal taxes and how to read annual accounts properly. Regrettably many are unable to help you properly but don't realise this.

These two types of advisor will provide you with advice and guidance in good faith and to the best of their ability. The problem is that, as well versed as they are in their areas of expertise, do they really have the expertise to provide the "total planning" service that an entrepreneur needs to maximise his or her potential. What you really need is that very rare breed of planner who

- Has a detailed knowledge of personal and business taxation and how these inter-relate.
- Relates quickly to the issues of business owners and has real experience in helping business owners

And can join the dots up in the correct sequence.

Given such a service, it is possible to leverage the assets of all involved and over time, obtain great results for the owners.

Better still if this advisor is able to offer a single facilitator service. In other words, no matter what the enquiry from complex tax query to how to protect the business owner personally - all should be facilitated by one firm.

This will reduce the opportunity for confusion and save you time and effort.

Does this describe your current relationship with your advisors?

Financial Planning is an internationally proven way for a financial adviser to operate a client relationship. This process has been recognised world-wide, with financial advisers in many countries operating to the similar methods and standards. The financial planning methodology that is taught is known as the **six step process** as shown below: -



The process is built around a detailed and broad understanding of the client's **overall** requirements, planning through their **various life stages**. If the client has dependents, this will involve creating individual plans for them too and then putting everything into **one cohesive plan**.

There are a variety of ways that a financial adviser will show his or her competence, e.g. diplomas. Many of these focus on the more traditional way of planning; that is by individual and ignoring their business.

In our view, if your financial adviser is worth their salt, then they need substantial experience of the business world and drawing up longer term financial plans for businesses. The resulting longer term plans that is developed will help maximise the owner's post tax income over time and develop possible exit strategies from the business. Mistakes are both difficult to detect and potentially very costly to the owner in lost income.

Tax planning

Let's look at just one example to illustrate further: tax planning. Many businesses (and/or their owners) either don't undertake major tax reviews at all, or they leave it to their accountant.

Common questions such as, 'how do I minimise my tax bill this year?' or 'how much should I take as salary versus how much should I pay into my pension?', become isolated ones. They are considered on their short-term merits, not in the context of the wider plan, how they impact the long term goals, nor in the context of how they impact the cash flow forecast.

If your approach is to minimise your tax bill in the current year (and therefore reduce your profit or income), but by doing so you need to raise finance in two to three years to supplement your medium-term objectives, have you brewed up a problem?

Or if you want to maximise a sale value on exit, how does this stack up against restricting profits (to save tax) in the shorter term?

Also, consider how your business tax planning interacts with your personal tax planning requirements. Is your business structured in a way that will allow you to pass the business onto the next generation 'tax free'?

Simple things get missed when financial affairs are considered in isolation. For example, do you have a life assurance policy which you pay from your personal account to provide protection for your family on your death? Do you have a business account? If that is the case (and it is for thousands of people in business) then you are probably paying completely unnecessary tax. You need to earn income to have the money available to pay for your personal life assurance cover, yet you could possibly pay for this cover directly **out of the business**, saving the need to pay yourself, and therefore probably saving tax.

These ideas and thoughts about tax are just **tax** considerations. A business will have considerations and decisions to be made about all sorts of requirements; some business, some personal, some financial, and some lifestyle.

Financial planning is a way of embracing **all** these considerations and creating one overall plan which balances them out against each other.



Your Objectives

We all have goals in life that we wish to achieve. What are yours?

Here are a number of ideas to stimulate you and I would like you to prioritise them

OBJECTIVE	Priority
To be financially well organised -to create a financial plan which will give you a clear grasp of your present financial situation and will help you make the most effective use of your resources towards the achievement of your goals and objectives.	
General lifestyle to define your family's version of 'the good life' and to achieve it as soon as possible.	
Financial independence -to achieve financial independence no later than age _____.	
Basic family security -to ensure that adequate provision is made for the financial consequences of the death or disablement of yourself or your spouse.	
Income tax planning/current cash flow management -to minimise your income tax liability, produce an analysis of your personal expenditure planning assumptions and to ensure that your cash inflows are sufficient to cover your desired cash outflows.	
Investment planning/future cash flow management - to estimate future cash flow on realistic assumptions and to develop an investment strategy which will enable you to invest your capital and surplus income in accordance with risk/reward, flexibility and accessibility standards with which you are comfortable.	
Your children's education -to provide for the cost of educating your children as you have planned, to develop for each of your children a 'foundation portfolio' of investment and life assurance and to ensure that their financial education is sufficient to enable them, by the time they enter university, to understand the basic concepts of personal financial planning.	
Estate planning - to reduce the tax liability likely to arise on the death of yourself and your spouse and to ensure that sufficient cash will be available in the right hands at the right time to meet any liability which remains.	
Business planning and protection -to develop a written business plan (and keep it up to date) and to ensure that your business is protected against the financial consequences of the death or disablement of any key person.	
Gifts to charities -to decide how best to structure your charitable giving.	
Any others (please specify)	
Finally, what is your single most important objective (please complete)	1

Now how are you going to achieve these?

Next Step

If this guide has prompted you to seek a second opinion on your financial affairs, then it has achieved its objective.

Naturally we hope that you will seek this second opinion from us.

We cannot promise to deliver the same results to you that we have managed to achieve for others but we can promise that your initial meeting will be informative and thought provoking.

So please contact us **now** on **0118 934 7921** to find out how we can help you maximise your true potential.



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