TUDOR FRANKLIN
independent financial advice

A GUIDE TO
FINANCIAL ADVICE FOR BUSINESS OWNERS

Helping you maximise the rewards
of your efforts and success

Tudor Franklin Ltd

Unit 5, Pear Tree Business Park
Desford Lane, Ratby
Leicester, LE6 0LE

T: 01163 193343
W: www.tudorfranklin.co.uk
E: contactus@tudorfranklin.co.uk

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Published for Tudor Franklin Independent Advice by Goldmine Media Limited.

Goldmine Media, Rivers Lodge, West Common, Harpenden, Hertfordshire, AL5 2JD.

WELCOME

"Every business has a lifecycle. And the better you can understand the risks and its needs, the better you can plan for every eventuality, at the right time."

A GUIDE TO FINANCIAL ADVICE FOR BUSINESS OWNERS

Welcome to our *Guide to Financial Advice for Business Owners*. Running your own business often brings with it greater risk, stress and pressure. But the rewards, both financial and personal, can be tremendous and the satisfaction of seeing your business grow immense.

That's why your corporate and financial planning should work together hand-in-hand. Achieving your personal financial goals will generally be dependent upon the success of your business. This means there are a number of key areas that need consideration, planning and regularly updating to ensure you achieve the outcomes you want.

As a business owner, you have more options for maximising the value of your pension and retirement plans than an employee. Are you taking full advantage of these and optimising your pension opportunities?

Another crucial area you can't overlook is protecting your business if the unexpected were to happen. How would your business be impacted if you or one of your best people were suddenly taken out of the picture?

And if you run a business with other shareholders or partners, what happens if one of you were to die prematurely? Where will the shares go? Who will you be running the business with? Will it be their partner, their children or the state?

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 eventually take equal care of it, whether that's a member of your family or a buyer. Have you made provision for this and put in place a succession plan?

Finally, 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. What plans have you got in place for both of these scenarios?

Business owners and entrepreneurs have different financial planning needs to those of employed professionals. You encounter different issues, and the solutions are not always clear. As a business owner, your time is precious. ▲

Solutions are not always clear, which is why we're here to help

We offer comprehensive financial planning advice for business owners and entrepreneurs, so you can spend more time doing what you do best – running your business. To find out more or to discuss your future vision – please contact us.

Name
Title

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. But it's important also to focus on the financial health of your business.

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 get there. They help improve your overall effectiveness as a business, whether you want to increase your share of the market, 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 wanted to accomplish in the first place.

Objectives are the specific steps you and your business need to take in order to reach each of your goals. 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.

"Hold yourself accountable with deadlines; and celebrate milestones and achievements."

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 as long as it defines the long- and short-term goals and you devise a plan for getting there. Determine what you want your goals to be; be as specific as possible; commit to your goals; meet regularly to measure progress; hold yourself accountable with deadlines; and celebrate milestones and achievements.

Addressing uncertainty - Is your business protected from the unexpected?

Newer businesses (Established within 2 years)
Could you survive the loss of a key person?

- 32% of business owners said they would cease immediately
- An additional 19% said they would cease within 12 months

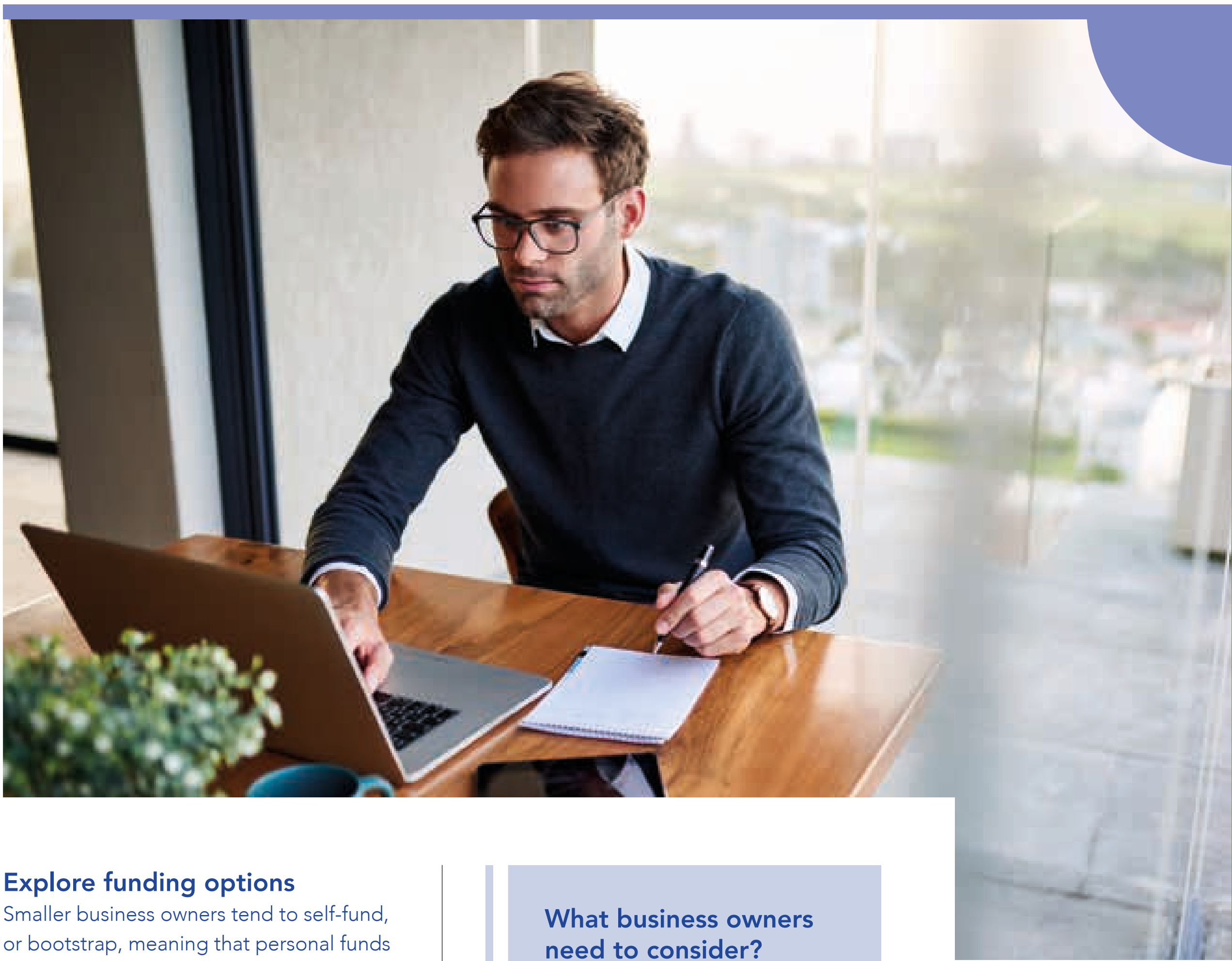
Young and maturing businesses (Aged between 2-10 years)
Could you repay your debts if an owner died?

- 58% of business owners said they had some form of corporate debt
- 16% have directors loan accounts
- 29% said they have debts over £150,000
- 75% have provided some form of security to their lenders e.g. secured against the family home

Established businesses (Set-up more than 10 years ago)
What would happen to your shares if a shareholder died?

- Only 30% of business owners said they had life insurance they could use to buy the shares if an owner died and 14% had no plans on how financially they would meet this need
- 43% said they were aware a directors loan would need to be repaid on death but had not taken out any life insurance cover to repay this amount
- 24% said they had a directors loan account above £150,000

Source data:
Legal & General State of the Nation's SMEs report 6th edition 10/20.



Explore funding options

Smaller business owners tend to self-fund, or bootstrap, meaning that personal funds are the owner's only, or major, source of capital. Putting money back into the business makes sense. Bootstrapping allows you to slowly and organically grow your business while ensuring that 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 sources of funding 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 or customer pre-sales or recurring sales, can ensure a constant inflow of capital.

What business owners need to consider?

- "Is most of the value of my business lost 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 next?"

And many more questions that we can answer for you.

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 if cash flow is a challenge, your business will stall.

> "Almost two-thirds (64%) of those who identified cashflow naivety as their largest regret suggested that they overspent before gaining any profit, ultimately leaving them in larger debt than they could manage" [1].

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 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 not only free up time, but 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

Identifying and mitigating risk is something every business needs to do, 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. And yes, it is virtually impossible to address every risk that could possibly affect your business. But you can certainly narrow down the list and put in place safeguards, starting with financial protection.

Having adequate cover ensures the business will have access to enough funds to enable it 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 you save for retirement while saving you tax 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 eventually realise the value you have built up in it.

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, an experienced professional financial adviser can walk you through your options to create a plan suited to your business needs.

"91% of SMEs have four owners or less, and 95.6% have less than 10 employees. This indicates that these businesses are the ones that could be at the greatest risk in the event of the death or critical illness of a key person(s)[2]."

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.

"Not having an estate plan in place risks undermining a lifetime of work, jeopardising 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 over to think about anything else, especially what would happen if something were you happen to you. Not having an estate plan in place risks undermining a lifetime of work, jeopardising the livelihood of your family and your 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 smart to always 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 provides 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 increasing 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 filling key and/or new roles effectively.

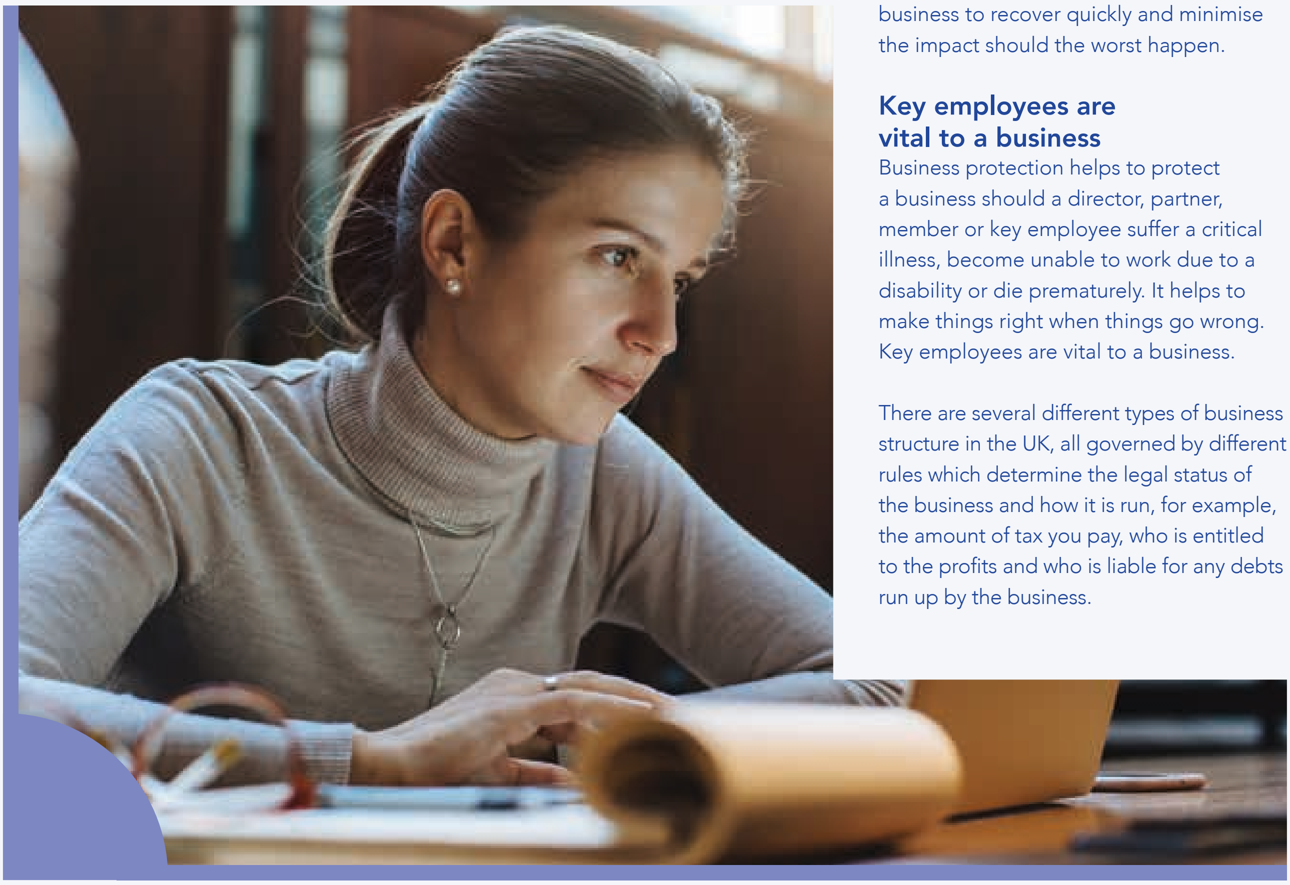
"A well-thought-out succession plan reduces the risk of significant disruption when you lose senior personnel."

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. ▲

Source data:
[1] Hitachi Capital Invoice Finance, data from 1,000 business owners to identify what UK SME's view to be their biggest financial mistakes 12/2020.
[2] Legal & General State of the Nation's SMEs report 6th edition 10/20.

FINANCIAL PROTECTION

HOW TO RECOVER QUICKLY AND MINIMISE THE IMPACT SHOULD THE WORST HAPPEN



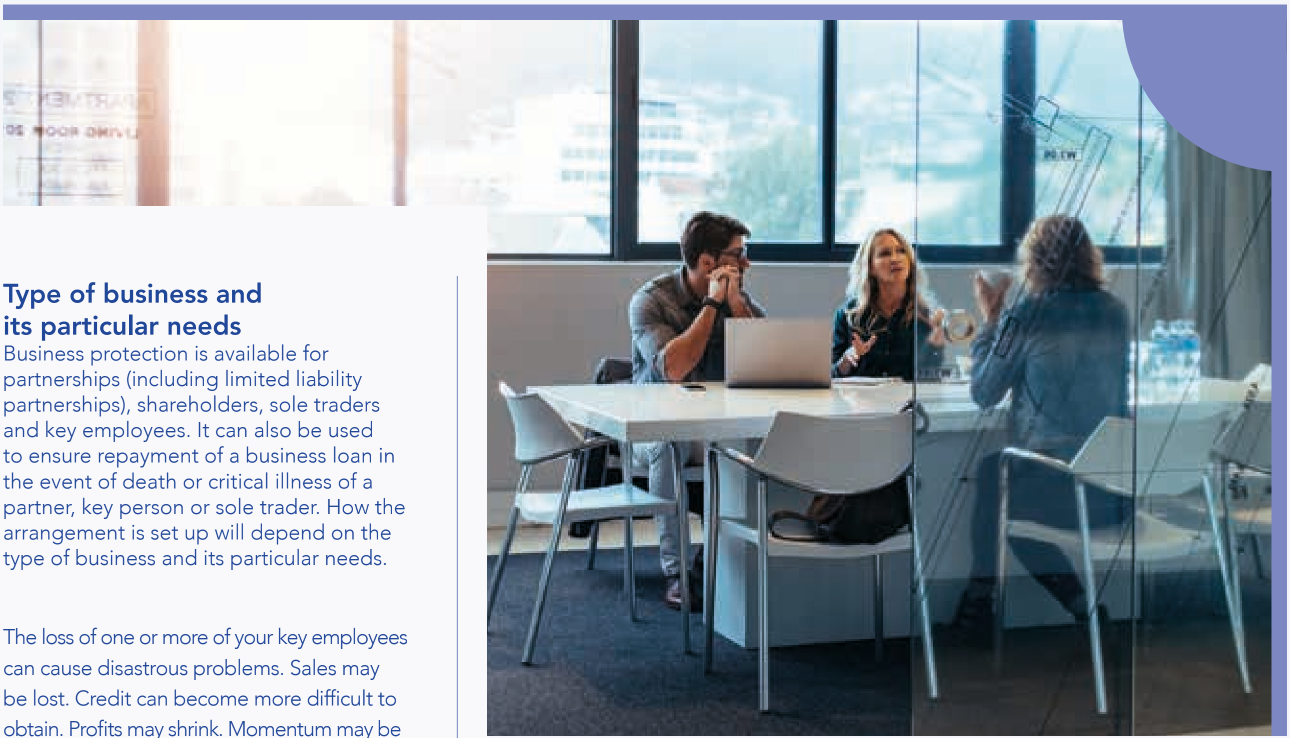
Whether you've been in charge of a successful business for several years or have only recently started up your own enterprise, it's important to understand the challenges and potential pitfalls, and to think of ways of minimising their impact.

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 structure in the UK, all governed by different rules which determine the legal status of the business and how it is run, for example, 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 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.

The loss of 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. And, hiring and training a replacement will cost you time and money.

Experts at 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 it will grow and evolve over the years. If you're just setting up your first business, the challenges you face may be very different to those you may encounter ten or twenty years down the line.

We are experts at protecting businesses, and we are here to help at every step of the way. To help you understand more about these risks, we've provided information about the key areas you need to consider.

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 member of staff. 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 a number of 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 recover; 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 for the risk of losing a key employee is not a legal requirement. Because of this, it's easy for businesses to overlook this protection. But remember your employees are your most valuable asset.

"Most businesses understand the need to manage the risks they face every day. They insure their premises, equipment and stock against fire, flood and theft. They insure their vehicles. But many don't stop to think what would happen if they lost their most important asset – their people."

Key person protection - considered how this could be a major impact on your business?

As a business owner and/or key person, dying or being diagnosed as critically ill could have a major impact on the business.

- 52% of businesses say they would cease trading if they lost a key person in under one year (especially sole traders and new businesses).
- 73% of those who do have cover said they were advised to take it out.

Have you truly considered the effects on your creditors, customers, employees and cash flow?

Source data:
Legal & General State of the Nation's SMEs report 6th edition 10/20.

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

If a shareholding director or partner were to die, the implications for your business could be very serious indeed. Not only would you lose their experience and expertise, but consider, too, what might happen to their shares. The shares might pass to someone who has no 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 then becomes a majority shareholder and so is in a position to sell the company.

Share protection - could you buy shares back from any partner who is diagnosed with a critical or terminal illness?

- 47% of business owners have left no instructions in their Will or special arrangements regarding shares in their business.
- 37% of shareholders would buy the owner's shares, if they had the funds to do this.

Only a third of limited companies (34%) and a quarter of partnerships (26%) have reviewed their partnership agreements or articles of association in the past year.

Around 4 in 10 have never reviewed them (38%).

Source data:
Legal & General State of the Nation's SMEs report 6th edition 10/20.

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, i.e. 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, it is the exercise of the option that 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 were to die or become critically ill. It is important that this agreement is not binding regarding 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 there are also policies available that pay out a regular income in the event of sickness.

Relevant life cover

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

Relevant life cover - time to consider this tax deductible employee benefit?

- Only 31% of business owners have heard of relevant life cover.
- When it was explained 70% were receptive to how it could protect their business.
- Among those who haven't heard of relevant life cover, 82% said when asked said they would be interested in knowing more.

Source data:
Legal & General State of the Nation's SMEs report 6th edition 10/20.

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 well as being an extra benefit of employment, it could help them to 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 insure the size of any outstanding debt, and in the event of their death this will be repaid. The larger the debt, the higher the premiums will be, but, for simple life cover, this is one of the cheapest forms of business protection insurance.

When a business borrows money from a bank or other financial institution, it is common that the business 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 business. These are called 'director's, or partner's, loan accounts' and need to be repaid on death. Financial protection is vital in the current economic environment to ensure that a business can repay corporate loans should the worst happen.

Business loan protection - would your business be able to repay outstanding borrowings such as a loan or commercial mortgage?

- Over half of businesses have some form of borrowing, increasing over time and averaging £175,000.
- The most common types of borrowing over £50,000 are business loans, overdrafts and directors' loan accounts.
- 17% have never thought about it.
- 28% did not know a Directors Loan Account needs to be repaid.

Source data:
Legal & General State of the Nation's SMEs report 6th edition 10/20.

Calculating the level of cover required

The cover required is typically measured by reference to the key person's contribution to the profits of the business. 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 make sure that you have the right protection in place to keep your business successful should the worst happen.

Life Assurance plans are designed to provide a high level of life cover at minimal cost and therefore have no surrender value. The cover provided will cease at the end of the policy term. If premiums stop, then cover will lapse.▲

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 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, just 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 end up having to work far later in life than you'd ideally like to. By shunning pensions you're missing out on some very significant tax benefits that could make a big difference to the amount of money you eventually have in the future. So having all your eggs in one basket can be a risky strategy.

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 a tax-efficient way to take money from your business. If you are planning to sell your business to fund your retirement, making the most of pension allowances is wise because 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 the way you save for your own 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. You cannot generally invest in residential property like houses, flats, holiday homes and holiday lets.

Self-Invested Personal Pension (SIPP)

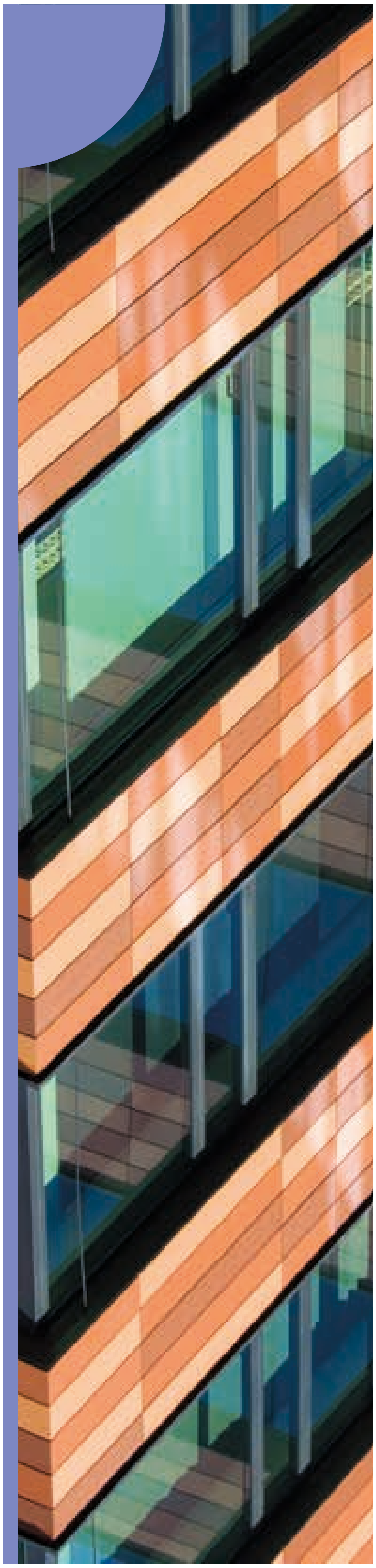
A Self-Invested Personal Pension provides more control over your own pension fund and you'll be able to make investment decisions yourself with the option of professional help.

Essentially, a SIPP is a pension wrapper that is capable of holding a wide range of investments and providing you with the same tax advantages as other personal pension plans. However, they are more complex and generally more expensive than conventional products and it is essential you seek expert professional financial advice.

As with other Personal Pensions, 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 on their own. Unless you have in depth investment experience, this is not always the best option however as you would be responsible for making the individual investment decisions.

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.

You should be aware that holding a property into a SIPP/SSAS has its drawback when you come to take benefits. As with any property, it could be difficult to sell, therefore you may not have access to the benefits when you may need them. The valuation of the property will be based on the opinion of the valuer which may be different than your own valuation.



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 for the SIPP to borrow up to 50% of its net value to fund the purchase subject to meeting specific criteria. I, 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 (tax deducted from dividends cannot be reclaimed).

Small Self-Administered Scheme (SSAS)

A company Small Self-Administered Scheme gives directors immediate control over former, and existing, pension funds which can be invested in your business or in 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 the 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.

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

To be able to buy and hold commercial property and land within a SSAS is a potentially attractive option considering the, tax benefits available. Along with personal pensions assets are sheltered for future generations within the SSAS and potentially protected from Inheritance Tax.

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

Care needs to be taken to ensure any loans fully satisfy HMRC conditions to avoid any potential tax charge. It is important to obtain advice before entering into any arrangements. 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, a SSAS pension can invest in all the areas allowable through a traditional pension scheme, such as stocks and shares, commodities, corporate bonds and gilts, as well as giving the members vast additional powers and opportunities.

Up to 11 members can be invited to be a part of 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 (EPP) 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 NIC liability and so extra pension contributions into an EPP can be made instead of salary increases.

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

For the individual, there is flexibility of retirement, 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 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.

"A SSAS provides the key essentials of wealth management and business growth: the flexibility and control over money in your pensions"

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 it's vital that business leaders 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 that's a member of your family 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 to 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 skill and expertise to run your business, and the inclination to do so. But 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 continuity of your business's progress towards its goals, as the same team continue to operate it and service customers.

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, for example, your retirement at a specific age or indefinite, 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 be aware of and keeps your plans on track. ▲

Succession planning checklist

For a business, working without a succession plan 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 a vision for the transfer of ownership and management of the company?
2. Do you have an identified successor in place?
3. If applicable, have you resolved the family issues that often accompany 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 become unable to 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 over to think about anything else, especially what would happen if something were to happen to you. Not having an estate plan in place risks undermining a lifetime of work, jeopardising the livelihood of your family and your business partners.

It's highly likely that a significant portion of your and your family's wealth is tied up in the business. And 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 happened and you died prematurely.

Avoid unnecessary and costly legal difficulties

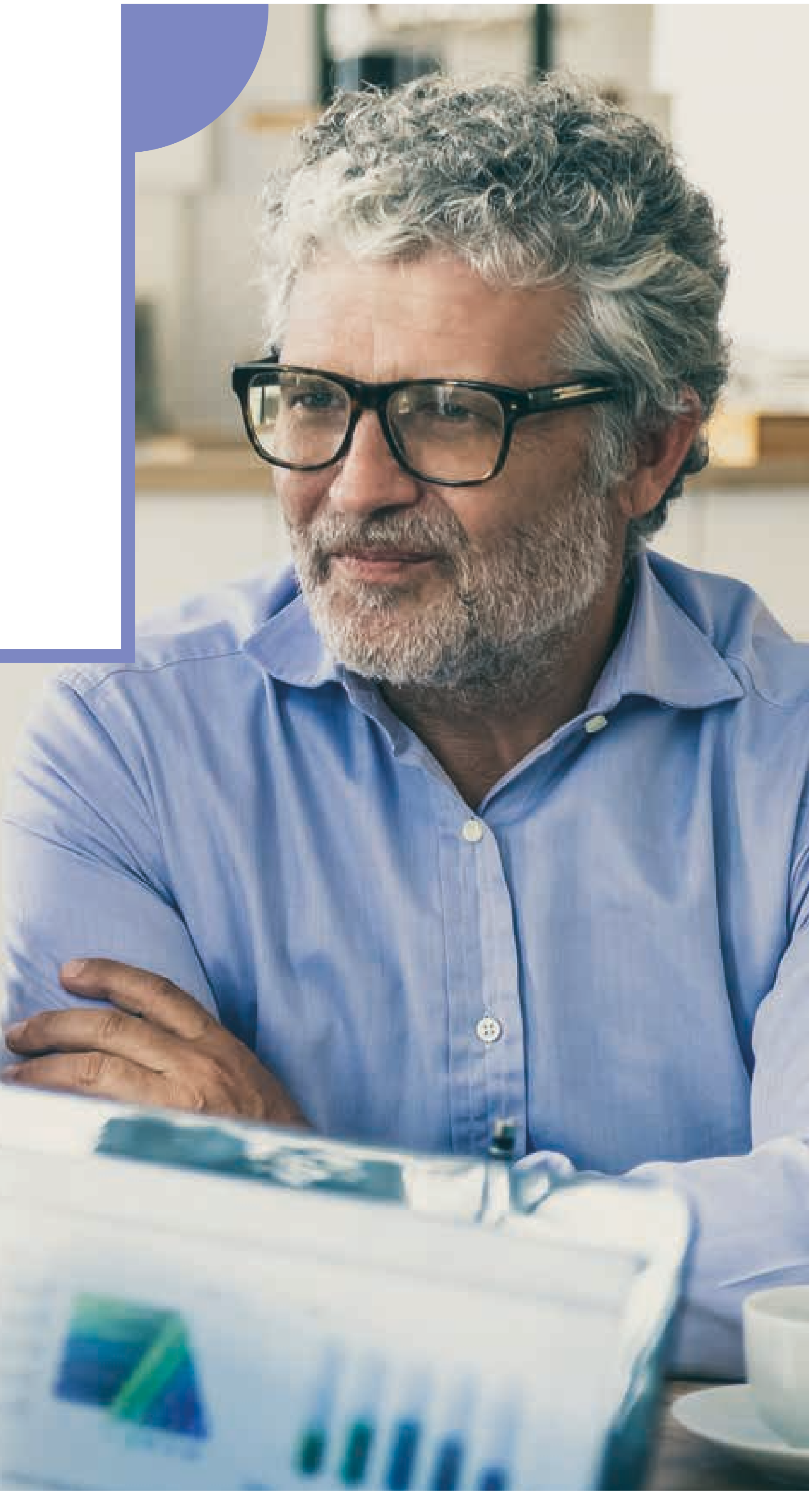
An estate plan accomplishes two things: it makes sure that someone you trust takes over your business when you're no longer able to or, if not, it details how exactly it would be wound down. And, as your wishes are clearly outlined, it also simplifies things for your loved ones, reducing disruption to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

Outlining exactly how you'd like your shares distributed

It cannot be stressed 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 they'd have to sell their shares. Which 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 which 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 are aware they need a Will, but not many are aware 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 additional cost in legal fees.

Involvement in the day-to-day running of the business

Trusts are a useful tool to deal with some of the issues covered above. 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 Property Relief. Structuring your Will correctly and placing your shares in a trust can mean your beneficiaries avoid paying tax on those shares.

How to keep business assets within the bloodline

Next you need to 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 how to make sure 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, which would mean 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 through having unwanted new shareholders and also provide your beneficiaries with an income at the same time.

You should keep your plan updated to make sure it reflects your wishes and also 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. Making sure your plan is updated will ensure you can take advantage of those changes.

Business Property Relief (BPR)

If you're a business owner, Business Property Relief (BPR) is a valuable Inheritance Tax relief. It could provide up to 100% relief when you die, as long as 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.

If you have a business or an interest in a business, whether a sole trader, partnership or limited company, you can claim 100% relief provided it's inherited as a going concern. This means it is exempt from Inheritance Tax. You can get 100% relief on: a business or interest in a business and shares in an unlisted company.

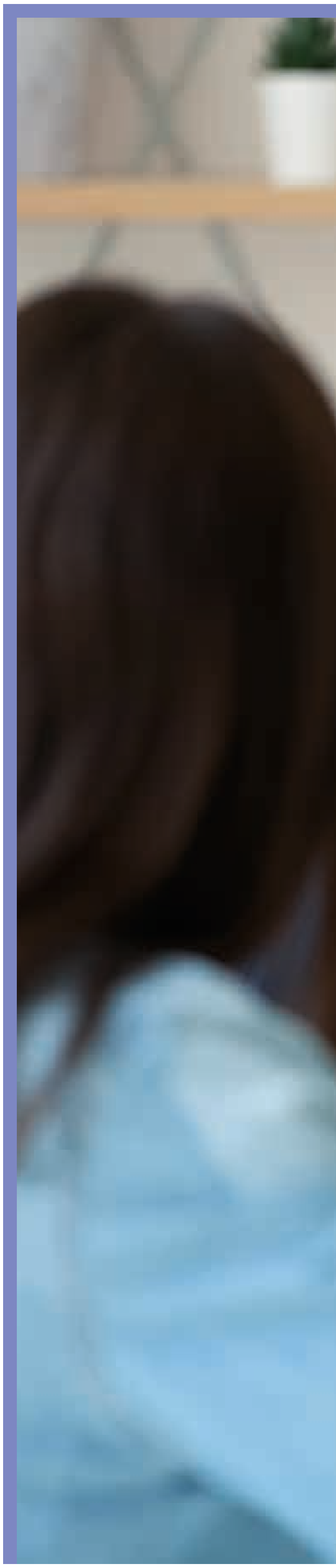
You can also get 50% relief on: land, buildings, plant or equipment you own and that is wholly or mainly used by the business; shares controlling more than 50% of the voting rights in a listed company; land, buildings, plant or equipment used in the business and held in a trust that it has the right to benefit from. You must have owned the business or asset for at least two years to claim this relief.

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

BPR is a worthwhile consideration if you're a sole trader, partner or shareholder and you've owned the relevant business property for more than two years. It is therefore possible to take advantage of BPR even if you're not a business owner yourself.

Since 2013, AIM-listed shares can also now be held within an Individual Savings Account (ISA), which means that investors can hold BPR-qualifying shares and benefit from the tax efficiencies of an ISA. BPR-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 of the estate for tax purposes.

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



Want to discuss merging together your personal and business goals into one financial plan?

We're here to help you today and plan for tomorrow, from protection strategies to retirement to transitioning your business. Let us help you create the financial framework to let your business and wealth thrive.

To find out more or to discuss your requirements – please contact us.

Call **Tudor Franklin Ltd** on **01163 193343** or email **contactus@tudorfranklin.co.uk** to request a call back.

Visit our website **www.tudorfranklin.co.uk.**

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