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Financial Planning for Business Owners

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Learning Objectives

By the end of this session, you will



**Understand the opportunities
for working with business
owners**



**Consider the pre-sale
planning needs of a business
owner**



**Understand the tax
considerations for running a
business**

Pre-Sale Planning Considerations



Three Critical Questions for Business Owners

1

How much capital is required to secure their future?

2

What will make up their capital on exit?

3

Are they on track?

Profit Extraction



Profit Extraction - Pensions

Despite the IHT changes, pensions provide a tax efficient means of withdrawing profit



Pension Tax Relief

- ⚠ Corporation tax relief at highest rate
- ⚠ Tax free investment growth
- ⚠ 25% tax free at retirement
- ⚠ No earning requirement for employer contribution
- ⚠ Need to consider annual allowance

Wholly and Exclusively- Pensions

- Under **BIM46030**, HMRC confirms that pension contributions to registered schemes must meet the “wholly and exclusively” test.
- “Where the controlling director is also the person whose work generates the company's income then the level of the remuneration package is a commercial decision, and it is unlikely that there will be a non-trade purpose for the level of the remuneration package.” **BIM47106**
- The position for the spouse is more complex. **BIM47105**.

“My business is my pension”



Planning Needs – BR
Qualifying
Businesses



Trading Businesses on death



- The trading business is 100% owned and run by Mr Jones, age 72 with a £1.5m value.
- His wife, Mrs Jones, is aged 61 and not currently involved in running the business.
- On Mr Jones death, his will leaves the business to Mrs Jones who will sell the business.

Mr Jones dies

Business passed to Mrs Jones

No IHT on transfer, CGT is rebased.

Mrs Jones sells the business,
with no CGT

Cash proceeds held in Mrs
Jones' name

The proceeds are fully
assessable to IHT

What could they have done differently?

Trading Businesses on death – Will Trust



- The trading business is 100% owned and run by Mr Jones, age 72 with a £1.5m value.
- His wife, Mrs Jones, is aged 61 and not currently involved in running the business.
- Mr Jones updates his will to send his business to a discretionary will trust.

Mr Jones dies

Business passed to the trust.

No IHT on transfer due to BR,
CGT is rebased.

The trustees sell the business,
with no CGT

Cash proceeds held in the
trust, with Mrs Jones a
beneficiary

The proceeds are not in Mrs
Jones' IHT estate

Also works via deed of variation

Other Considerations

To Consider

- 1 Their “Number”
- 2 Trading Structure
- 3 Remuneration Strategy
- 4 Business Protection

Post-Sale Planning Considerations



Post Sale Planning



After running their business for a number of years, Steven and Gloria (age 58) have sold their Business for £2,500,000 after tax.

What do they need to think about?

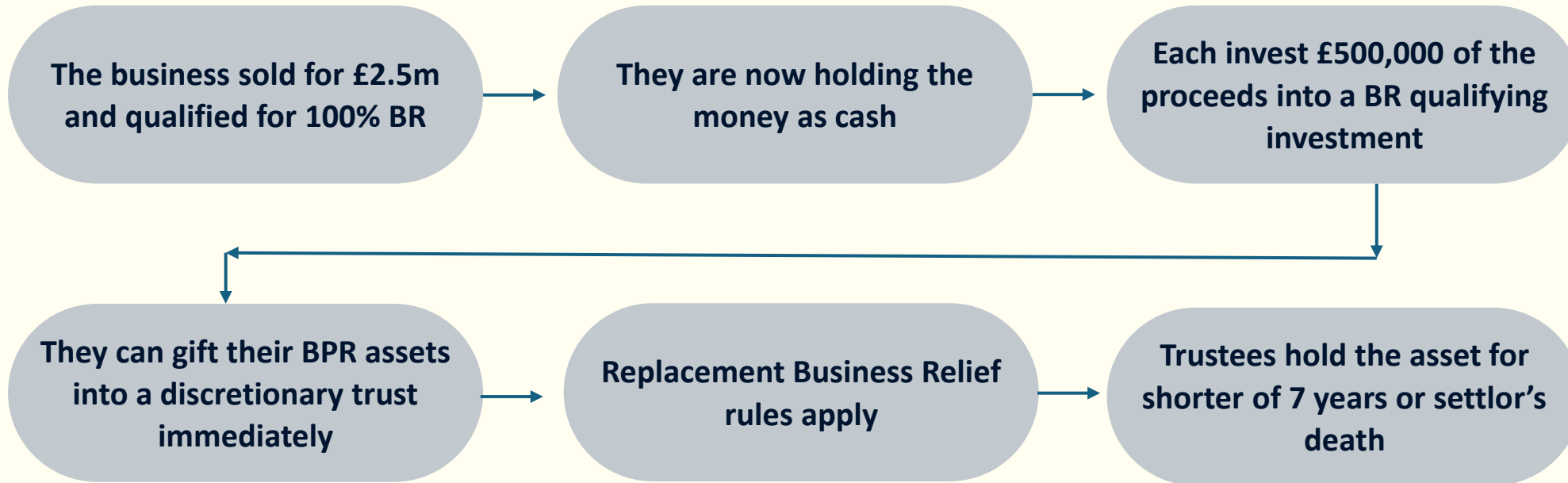
Our business has been sold, what do we need to consider?



Consideration 1: Replacement Business Relief



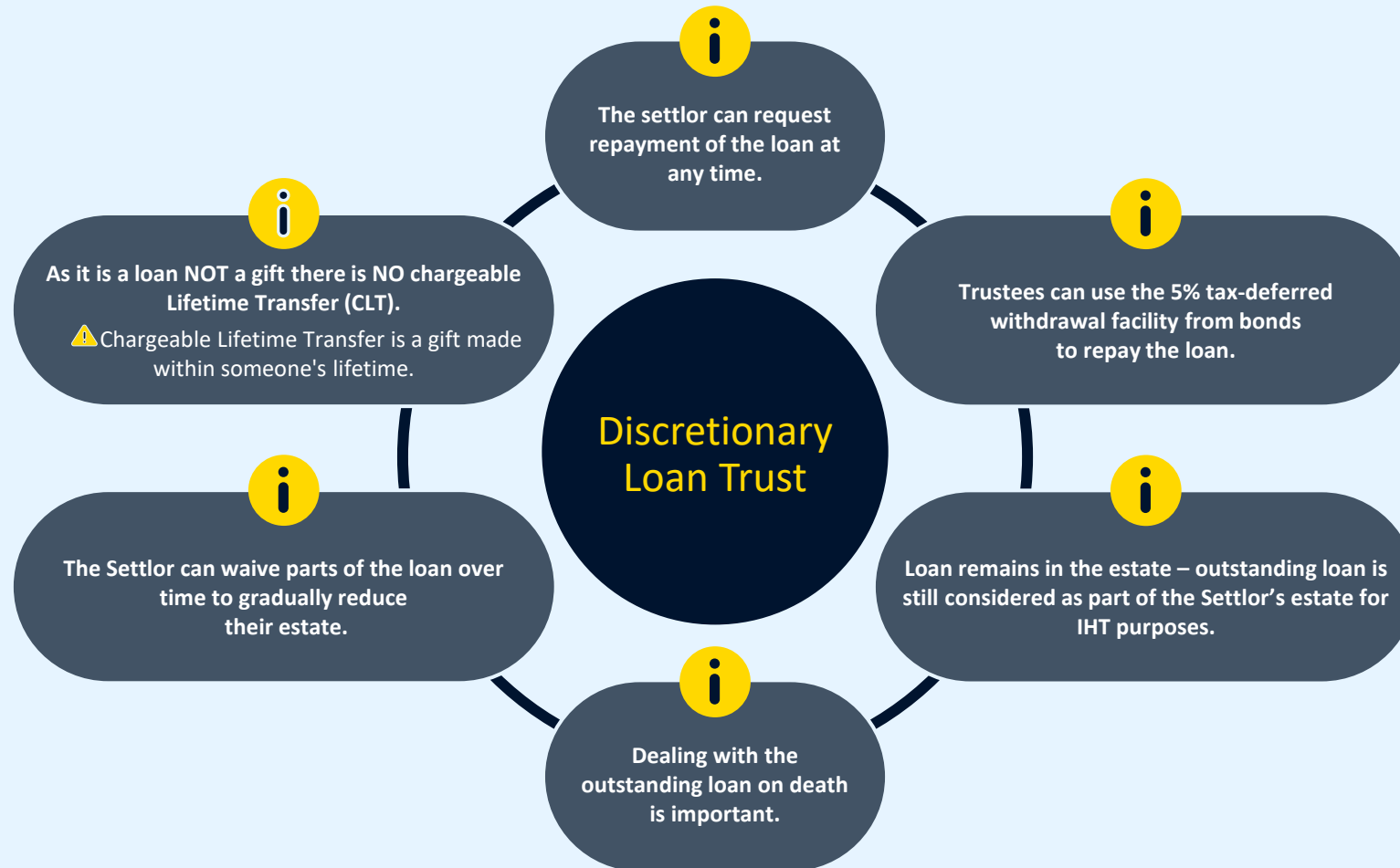
Replacement Business Relief



Strategy 1: Discretionary Loan Trust

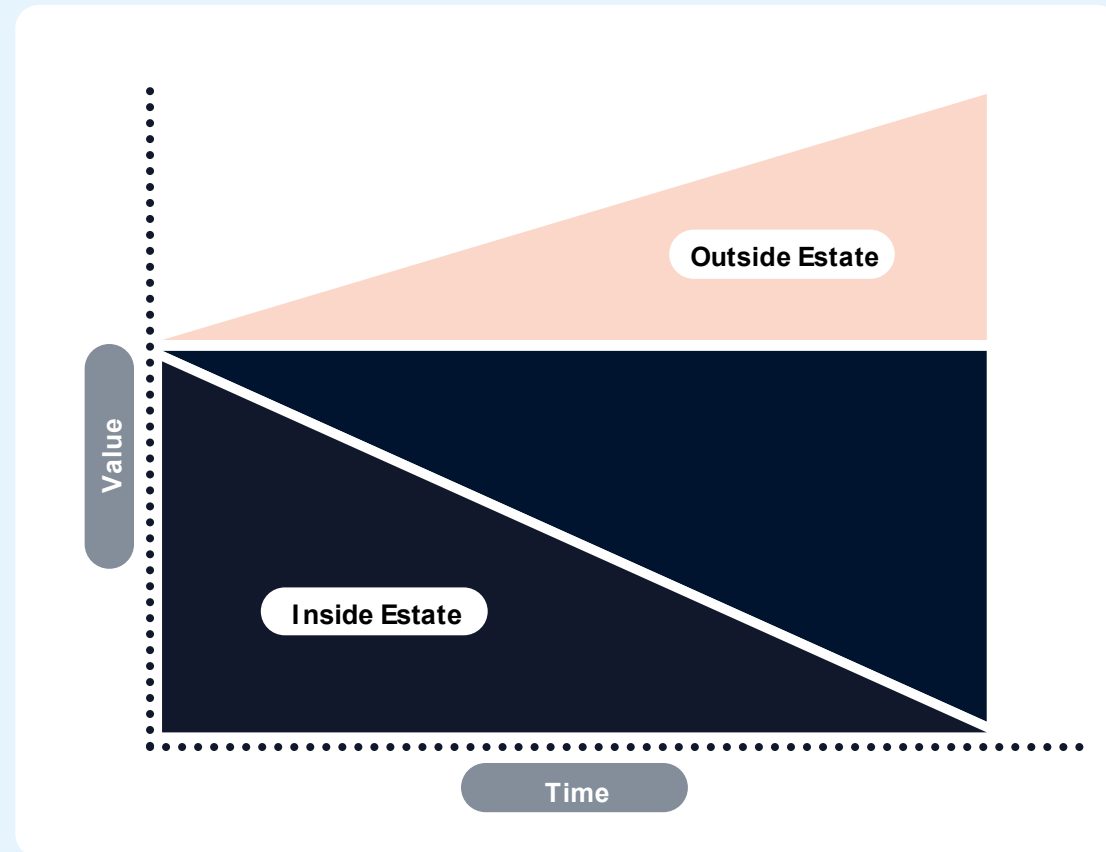


What is a Loan Trust?



*The value can fluctuate and customers may get back less than the amount invested.
This information is based on our understanding of current tax rules; these rules may change in the future.
Tax treatment depends on the individual circumstances of a customer and is subject to change.*

Loan Trust



How can it be used following a business sale?

After the other planning, there is £2,500.000 which can go into a series of loan trusts.

They draw a 3% income, £75,000, from the trusts

Year	Starting Loan Value	Annual Income	Outstanding Loan
1	£2,500,000	£75,000	£2,425,000
10	£1,825,000	£75,000	£1,750,000
20	£1,075,000	£75,000	£1,000,000
30	£325,000	£75,000	£250,000

After 30 years (age 88), they'll have had £2,250,000 of income and only £250,000 is in their estate. Income taken within the 5% allowance.

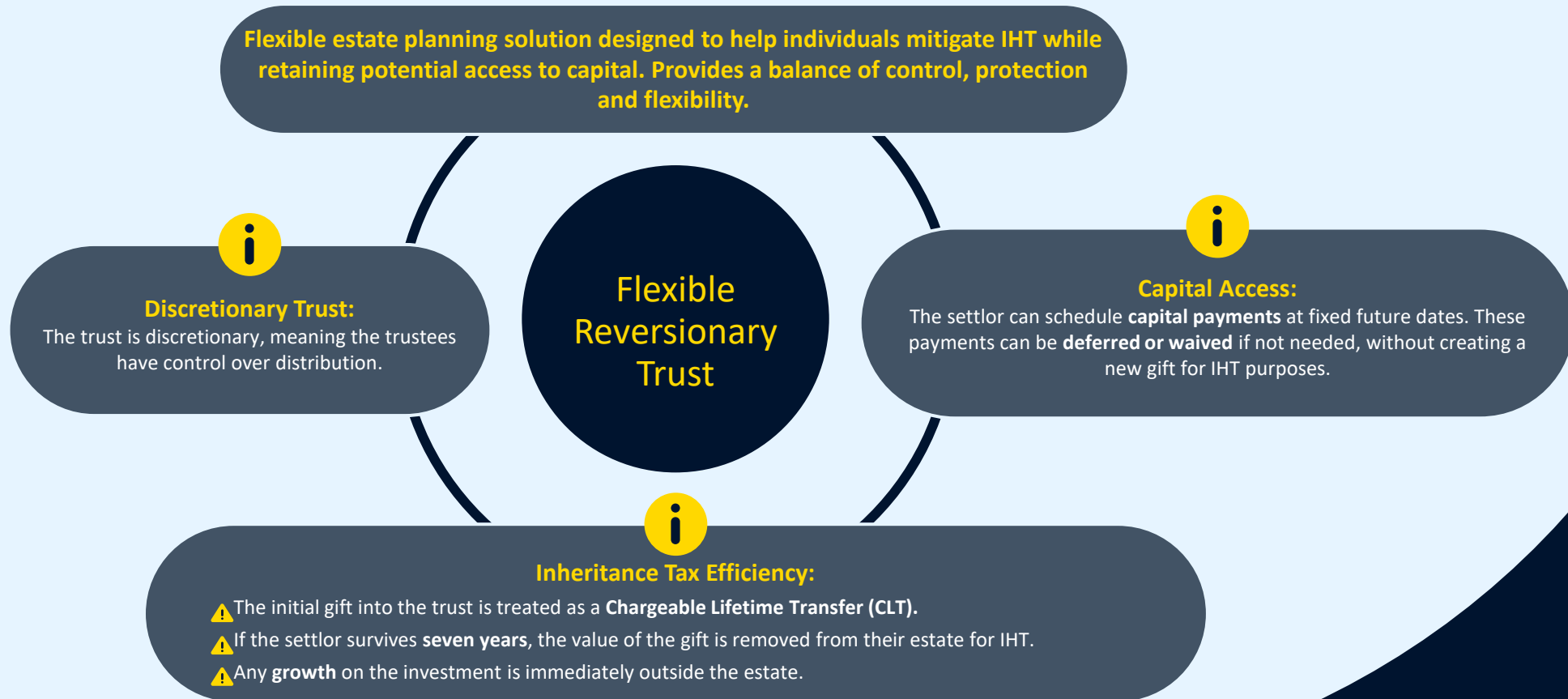
The value of the bond will depend on the investment growth.

Their income can be increased (inflation) or reduced (state pension) as required.

Flexible Reversionary Trust



Flexible Reversionary Trust



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How can it be used following a business sale?



Giftng where a flexible income is required. 100 segments per year for 10 years.

Each can make a £325,000 gift into the trust

The funds can be used to support family if required.

Steven and Gloria will receive their main income from the loan trust. The FRT can be used to top up as needed.

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Flexible Reversionary Trust – Vesting Options

What options do we have at the vesting points?

How can we support the family?

What if we don't need the money?

What about tax?



Vesting Options

Options

Take no action – the segments revert to the settlor, to retain or surrender

Waive the settlor's entitlement into the trust permanently

Defer the vesting to a future date

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Other planning ideas and considerations



Order of gifting

Important in managing the periodic charge on trusts



N – not a gift, such as a loan trust



E – Exempt Gift, such as Business Relief qualifying assets



C – Chargeable Lifetime Transfers (CLT)



P – Potentially Exempt Transfer (PET)

In Closing



The **planning world** has **changed significantly** for business owners



Inheritance Tax planning will likely be **more important** to many clients



Understanding trust planning will be **more important** than ever



The **value of advice** has only **increased**

Learning Objectives

What we have covered



Understand the opportunities
for working with business
owners



Consider the pre-sale
planning needs of a business
owner



Understand the post-sale
planning needs of a business
owners

Thank You



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