Woodward Markwell

FINANCIAL ADVISERS

GUIDE TO

PLANNING FINANCIAL SUCCESS FOR BUSINESS OWNERS AND DIRECTORS

MAY 2025

How to develop a flexible financial plan tailored to your evolving business and personal goals

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GUIDE TO

PLANNING FINANCIAL SUCCESS FOR BUSINESS OWNERS AND DIRECTORS

How to develop a flexible financial plan tailored to your evolving business and personal goals

Welcome to our *Guide to Planning Financial Success for Business Owners and Directors*.

Financial planning is more than just a blueprint for financial success and business growth. For business owners and company directors, it's also a vital step toward safeguarding their personal financial security and preparing for the future.

The path to building a stable financial future is complex and requires a customised approach that aligns with your personal needs and business objectives. This guide explores the critical components of financial planning specifically tailored for individuals in charge of a business.

Running a business comes with unique financial opportunities and responsibilities. Your personal finances are often deeply intertwined with your company's performance.

Have you considered how your business would operate if you or a co-owner encountered unforeseen circumstances like premature death or ill health? Questions such as who would inherit shares, how decisions would be made, and who you'd collaborate with in those situations are crucial. Without clear provisions, these uncertainties could jeopardise everything you've worked so hard to build.

Equally critical is planning for the eventual transition of your business. Whether you intend to pass your business to a family member or sell it, having a succession plan is essential. It ensures your business's continued success and minimises disruption for your family and stakeholders.

Additionally, an estate plan clarifies your wishes, ensuring that your business is in trusted hands or is outlined for a seamless wind-down when the time comes.

With careful planning, you can overcome these challenges by developing a solid roadmap that ensures financial stability for your business and peace of mind for you and your loved ones. ●

MEETING THE UNIQUE NEEDS OF BUSINESS OWNERS AND DIRECTORS

We understand that navigating these decisions is not always straightforward. That's why we are here to guide you every step of the way. Our comprehensive financial planning services are designed to meet the unique needs of business owners and directors, allowing you to focus on what you do best – running your business.

Take the first step toward a more secure future today. Contact us to learn how we can help you achieve your financial goals and create a plan tailored to your vision. Together, we can build a plan to ensure your and your business's long-term success.

> **"GREAT THINGS ARE NOT DONE BY IMPULSE, BUT BY A SERIES OF SMALL THINGS BROUGHT TOGETHER."**

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION ADVICE, ESTATE PLANNING, INHERITANCE TAX PLANNING, WILLS OR TRUSTS.

TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING.

CONTENTS

02 WELCOME
How to develop a flexible financial plan tailored to your evolving business and personal goals

04 MANAGING YOUR FINANCIAL HEALTH, BOTH BUSINESS AND PERSONAL
Reaching financial milestones and celebrating these achievements keeps you motivated

05 BUSINESS FACTS
The UK business landscape in 2024

06 YOUR QUESTIONS ANSWERED, YOUR FUTURE SECURED
Making the best decisions for your business and future

07 ROADMAP FOR MANAGING YOUR BUSINESS FINANCES
Six critical areas that can drive sustainable success

10 FUNDING OPTIONS
Aligning strategies with your business model, growth stage, and risk appetite

14 PROTECTION AND KEY PERSON INSURANCE
Securing your enterprise from potential risks should be a priority

17 SHAREHOLDER AND PARTNERSHIP PROTECTION
Ensuring stability and continuity in unforeseen circumstances

20 RETIREMENT PLANNING
Creating a safety net that ensures financial security for the later stages of your life

24 SUCCESSION PLANNING
Securing your legacy and the ongoing success of your business

25 DEVELOPING A SUCCESSFUL SUCCESSION PLAN
Steps that form the foundation of any effective plan

26 SUCCESSION PLANNING CHECKLIST
Ten essential questions every business owner should ask

27 ESTATE PLANNING AND INHERITANCE TAX
Protecting your family's financial security, your business's stability, and your employees' livelihoods

29 BUSINESS RELIEF
Maximise your legacy with smart strategies to save on Inheritance Tax

30 FORWARD-THINKING STRATEGIES
Foundation for achieving both your professional and personal aspirations

MANAGING YOUR FINANCIAL HEALTH, BOTH BUSINESS AND PERSONAL

Reaching financial milestones and celebrating these achievements keeps you motivated

Starting a business can be both exhilarating and overwhelming. It's tempting to devote much of your time and effort to developing your product or service, hiring the right people, and finding customers or clients. However, managing your financial health, both business and personal, is equally important.

Additionally, as a business owner, you likely face complex finances. With a strong focus on building and running a successful business, you may struggle to give your finances, especially your personal finances, the attention they require.

UNDERSTANDING THE DIFFERENCES BETWEEN PERSONAL AND BUSINESS FINANCIAL PLANNING

While there are overlaps, business and personal financial planning involve different priorities and challenges. Personal finances require attention to budgeting, saving, pensions, and investments for future security. Business finances often focus on cash flow management, tax obligations, employee expenses, and growth strategies.

One key distinction is how financial objectives are set. For example, while personal goals might involve saving for a home deposit or planning for retirement, business objectives can include increasing market share, expanding operations, or enhancing customer service.

SETTING CLEAR GOALS AND OBJECTIVES

Well-chosen goals offer a roadmap for success. Whether starting a new business or managing an established one, your goals should align with your broader aspirations. Goals represent your destination, while objectives are the steps you take to reach it.

For example, if your business goal is to increase revenue by 20% over the next year, your objectives might include launching a new marketing campaign or enhancing customer retention strategies. Personal goals can also benefit from this structure, such as saving £10,000 for a family holiday by cutting unnecessary expenses over 12 months.

IMPORTANCE OF MEASURABLE AND SPECIFIC TARGETS

The clearer your goals are, the more likely you'll achieve them. Use SMART criteria when setting targets. They should be Specific, Measurable, Achievable, Relevant, and Time-bound. For example, rather than deciding to "save more money" for personal finances, aim to "save £2,000 each month for a year." Similarly, set actionable milestones in your business to track progress, such as increasing monthly sales by 5%.

This approach ensures you remain focused and on track, providing a means to monitor performance. Regularly reviewing these goals also enables you to make adjustments as necessary.

BALANCING TIME BETWEEN BUSINESS AND PERSONAL FINANCIAL MANAGEMENT

Many entrepreneurs find that their business demands overshadow their personal financial management. To counter this, create a system that ensures both areas receive adequate attention.

Designate specific times to review your personal finances, perhaps setting aside one weekend each month for budgeting and planning personal investments. For your business, conduct quarterly reviews to assess cash flow, profitability, and expenses.

Seeking professional financial advice is essential. We can provide strategies tailored to your business needs and personal goals, streamline processes, ensure compliance, and help you save money over the long term.

BUILDING FINANCIAL RESILIENCE

Financial resilience is critical for both personal and business longevity. For your business, this might involve maintaining healthy reserves for unforeseen expenses,

BUSINESS FACTS

The UK business landscape in 2024

- The number of private sector businesses in the United Kingdom at the start of 2024 was 5.5 million
- 5.45 million businesses were small (0 to 49 employees)
- 37,800 businesses were medium-sized (50 to 249 employees)
- 8,250 businesses were large (250 or more employees)
- The UK private sector business population comprised 3.1 million sole proprietorships (56% of the total), 2.1 million actively trading companies (38%) and 356,000 ordinary partnerships (6%)
- 1.1 million companies were employers, as were 198,000 sole proprietorships and 86,000 ordinary partnerships
- 2.9 million sole proprietorships, 920,000 companies and 270,000 ordinary partnerships did not employ anyone aside from the owner(s)
- Total employment in SMEs was 16.6 million (60% of the total), whilst turnover was estimated at £2.8 trillion (52%)
- Employment in small businesses was 13.0 million (47%) and turnover £1.8 trillion (36%)
- Employment in medium-sized businesses was 3.7 million (13%) and turnover £0.9 trillion (18%)
- Employment in large businesses was 11.1 million (40%) and turnover £2.5 trillion (48%)

Source data:
Official Statistics business population estimates for the UK and regions 2024: statistical release published 3 October 2024.

securing the best insurance coverage, or diversifying revenue streams.

Building personal resilience may involve establishing an emergency fund, investing wisely, and paying off high-interest debts.

Take the time to distinguish between essential and non-essential spending in all areas of your financial life. Separating what is important can reduce stress and better prepare you for uncertainties.

CELEBRATING MILESTONES AND ADJUSTING GOALS

Reaching financial milestones is no small feat, and celebrating these achievements keeps you motivated. For instance, if you've reached your retirement savings target or paid off a business loan, acknowledge the progress you've made. Simultaneously, it's vital to reassess your goals and set new ones that align with your evolving ambitions.

Whether these involve expanding your business internationally or planning for an early retirement, regular reflection helps clarify your focus and ensures you remain aligned with your aspirations. ●

YOUR QUESTIONS ANSWERED, YOUR FUTURE SECURED

Making the best decisions for your business and future

Planning for the future of your business can be daunting. Whether you are considering succession, retirement, or maximising the value of what you've built, the process often feels overwhelming without proper guidance.

That's where we come in. Our expert advice and tailored solutions help you make the best decisions for your business and future, allowing you to transition smoothly and confidently into the next chapter of your life.

No matter your questions or concerns, we're here to help you clarify the complexities so you can concentrate on building a secure and prosperous future. ●

Here are just some of the important questions business owners face:

- How do I extract profits from my business in a tax-efficient way?
- Is most of my business's value tied to my own involvement?
- Can I take a step back but still retain ownership?
- When's the best time to sell or pass along my business?
- How do I effectively plan for succession?
- How can I exit my business while reducing tax implications?
- How much do I need to secure my family's future and my retirement?
- I've sold my business. What comes next?

"NO MATTER YOUR QUESTIONS OR CONCERNS, WE'RE HERE TO HELP YOU CLARIFY THE COMPLEXITIES SO YOU CAN CONCENTRATE ON BUILDING A SECURE AND PROSPEROUS FUTURE."

ROADMAP FOR MANAGING YOUR BUSINESS FINANCES

Six critical areas that can drive sustainable success

Running a business isn't just about great ideas or passionate execution; it also involves numerous financial responsibilities. Navigating these effectively can be both challenging and rewarding.

This section of our guide serves as a roadmap for managing your business finances, focusing on six critical areas that can drive sustainable success: cash flow management, tax planning, risk mitigation, retirement planning, estate planning, and succession planning.

Whether building your business from the ground up or scaling an established enterprise, these strategies are essential for long-term stability and growth.

1. CASH FLOW MANAGEMENT

Cash flow serves as your business's financial heartbeat. It fuels daily operations, enables timely bill payment, ensures payroll cover, and provides the resources for growth initiatives.

Even profitable businesses can struggle if cash inflows aren't consistent enough to cover outflows. Effectively managing cash flow can mean the difference between thriving and barely surviving.

WHY CASH FLOW MATTERS

Healthy cash flow ensures that you can meet your financial obligations while also building a buffer for future investments or unexpected downturns. Consider scenarios like delayed payments from a major client or unexpected equipment repairs; strong cash flow makes these challenges manageable.

ACTIONABLE TIPS FOR MANAGING CASH FLOW

- **Create accurate cash flow projections:** Use historical data along with seasonal trends to anticipate future inflows and outflows. This will help you spot potential cash shortfalls before they occur.
- **Streamline receivables:** Optimise your invoicing process by sending invoices promptly. Consider offering discounts for early payments or using tools that automate follow-ups on overdue bills.
- **Prioritise expense management:** Regularly review and revise your budget. Look for unnecessary expenditures, like unused subscriptions or excess inventory, and reinvest that capital effectively.
- **Build a reserve fund:** Set aside a portion of your income to address unexpected circumstances or periods of slower sales.

Example: A restaurant owner notices a consistent dip in sales during the off-season. By analysing trends and creating cash reserves during high-revenue periods, they can cover operational costs without resorting to loans.

> **SMART TAX PLANNING ACTS AS AN ANNUAL FINANCIAL WINDFALL FOR YOUR BUSINESS.**

2. TAX PLANNING

Taxes are an unavoidable part of running a business, but with careful planning, they need not be a burden. Effective tax strategies can reduce your liabilities, free up resources for growth, and ensure compliance with the law.

BENEFITS OF TAX PLANNING

Tax planning not only minimises financial strain during tax season, but it also allows you to take advantage of deductions and credits you might otherwise overlook. For example, business expenses such as office supplies, rent, and employee training may qualify as write-offs.

ACTIONABLE TIPS FOR TAX PLANNING

- **Engage tax professionals:** The complexity of business taxes makes professional guidance invaluable. An experienced accountant or tax advisor can help you uncover tax-saving opportunities like depreciation of assets and early payments for deductible expenses.
- **Consider the structure of your business:** The way your business is structured – whether it's a sole proprietorship, partnership, or corporation – affects your tax obligations.
- **Strategically align tax plans:** Combine personal and business financial goals. For example, contributing to a retirement plan like a Self-Invested Personal Pension (SIPP) not only secures your future but also reduces your taxable income today.

Example: A boutique owner who establishes a SIPP (Self-Invested Personal Pension) for herself finds she can deduct contributions while setting up a more secure future for her team.

3. RISK MITIGATION

Every business faces risks, including operational disruptions, cyberattacks, or even the unexpected loss of a key team member. Risk mitigation ensures that your business can weather any storm and emerge stronger.

WHY MITIGATING RISK IS VITAL

Unplanned risks can derail your business, but being proactive offers a safety net. Investing in protective measures today ensures your livelihood isn't jeopardised when challenges arise.

ACTIONABLE TIPS FOR MITIGATING RISKS

- **Purchase adequate insurance:** Ensure your policies are comprehensive, covering everything from liability and property insurance to employee-related cover such as life insurance, income protection, and critical illness.
- **Establish a contingency fund:** Allocate resources specifically for emergencies, such as economic downturns or equipment failure, so you can stay operational.
- **Create a business continuity plan:** Identify potential threats, outline how to address them, and develop processes for minimising downtime.

Example: A manufacturing firm invests in equipment maintenance insurance and an IT disaster recovery system, ensuring uninterrupted production even during unexpected failures or cyberattacks.

4. RETIREMENT PLANNING

Planning for retirement may not be your top priority when managing day-to-day operations, but it is essential for long-term security. Your business should not only be a source of income now, but also a pillar of financial stability in your later years.

WHY YOU NEED RETIREMENT PLANNING

Effective planning allows you to step back from managing the business without financial stress while savouring the fruits of your labour.

ACTIONABLE TIPS FOR RETIREMENT PLANNING

- **Explore contribution options:** Look into business-friendly retirement plans like a Self-Invested Personal Pension (SIPP), Small Self-Administered Scheme (SSAS), Personal Pension Plan or Employer-Sponsored Pension Plan (Auto-Enrolment). These plans provide tax benefits while helping you save.
- **Diversify your investment portfolio:** Relying on the sale of your business as your sole retirement plan can be risky. Consider additional investments to complement expected returns.
- **Calculate future needs:** Estimate how much personal income you'll need in retirement, considering living expenses, travel, healthcare, and inflation.

Example: A graphic design entrepreneur opts for an Employer-Sponsored Pension Plan (Auto-Enrolment), allowing her to contribute as both an employer and employee, significantly boosting her retirement savings.

5. ESTATE PLANNING

Estate planning ensures that your hard-earned business assets and legacy are preserved for your loved ones. While this task is easily overlooked, it is critical for preventing uncertainty and challenges for heirs and stakeholders.

KEY COMPONENTS OF ESTATE PLANNING

Estate plans encompass more than just distributing property among heirs; they also reduce taxes and facilitate critical decision-making in the event of incapacitation.

ACTIONABLE TIPS FOR ESTATE PLANNING

- **Write a Will:** Clearly outline asset allocation, including the transfer of shares or management roles in your business.

PROACTIVE RISK PLANNING EQUIPS YOUR BUSINESS TO SURVIVE SETBACKS AND THRIVE IN UNCERTAIN CONDITIONS.

- **Establish trusts:** Trusts can potentially shield assets from probate and minimise tax burdens for heirs.
- **Designate decision-makers:** Appoint someone as your financial power of attorney or healthcare proxy to ensure your wishes are followed.

Example: A business owner establishes a family trust for their company, ensuring seamless transitions and reduced inheritance taxes for their children.

6. SUCCESSION PLANNING

Succession planning prepares you for the next chapter of your business, whether that involves selling, closing, or passing it on to someone else. A strong succession plan ensures your business's legacy and stability.

WHY SUCCESSION PLANNING IS ESSENTIAL

Leadership transitions can be chaotic if unplanned. A clear roadmap simplifies the process and protects your business's value. It's also good to get a clear understanding of any loss of control through the establishment of a trust (appointing more trustees) and changes to taxation.

ACTIONABLE TIPS FOR SUCCESSION PLANNING

- **Identify successors early:** Whether it's a family member, employee, or external buyer, develop someone capable of seamless leadership.
- **Value your business correctly:** Use professional appraisals to assess the value of your company and secure fair compensation when selling.
- **Periodically review & revise:** Update your succession plan as the business evolves to reflect changes in structure, finances, or leadership.

Example: A restaurant owner collaborates with their children to gradually transition ownership, training them in operational and financial aspects while maintaining oversight until they are ready.

PLANNING TODAY TO SECURE TOMORROW'S SUCCESS

A thriving business encompasses more than just a livelihood; it represents a culmination of dreams, efforts, and risks. By mastering cash flow, being savvy about taxes, preparing for challenges, and planning for the future through retirement, estate, and succession strategies, you can build a financially robust enterprise.

Taking proactive measures today will ensure your business not only survives but also thrives for years to come. Start planning now to secure tomorrow's success! ●

FUNDING OPTIONS

Aligning strategies with your business model, growth stage, and risk appetite

WHILE NUMEROUS BUSINESS OWNERS DEPEND ON PERSONAL FUNDS TO GET STARTED, SEVERAL ALTERNATIVE FUNDING OPTIONS CAN ASSIST YOU IN ACHIEVING YOUR GROWTH GOALS.

Funding is among the most critical aspects of starting and growing a business. While numerous business owners depend on personal funds to get started, several alternative funding options can assist you in achieving your growth goals. Let's consider various funding options, their pros and cons, and tips for making the best choice for your business.

1. BOOTSTRAPPING (SELF-FUNDING)

What is it?
Bootstrapping means using your personal savings, income, or credit to fund your business without external investors or loans.

Pros:
- Full control over your business since there are no outside stakeholders.
- Avoid interest payments or repayments on loans.
- Encourages lean operations and efficiency.

Cons:
- High personal financial risk if the business fails.
- Limited growth potential if funds run out.
- Can be stressful to manage personal finances alongside business expenses.

Example tip:
Create a strict budget for your business to ensure every dollar is used wisely. For instance, prioritise spending on customer acquisition over office decor during the early stages.

2. VENTURE CAPITAL

What is it?
Venture capital (VC) involves obtaining funding from professional investors who finance high-potential startups in exchange for equity.

Pros:
- Large amounts of capital can provide significant growth opportunities.
- Access to mentorship and networks from experienced investors.
- Doesn't require repayment if the business does not perform as expected.

Cons:
- You give up a portion of ownership in your company.
- Venture capitalists may demand significant influence in decision-making.
- Often suited for businesses with high growth potential (e.g., tech startups).

Example tip:
Prepare a compelling business plan and pitch deck detailing how your product or service fills a gap in the market before approaching venture capital funds.

3. ANGEL FINANCE

What is it?
Angel investors are individuals who offer

personal funds to startups in exchange for equity or convertible debt.

Pros:

- Angels may invest earlier than venture capitalists.
- Investments can be smaller and more flexible.
- Often includes mentorship and strategic advice.

Cons:

- Similar to VC, you may have to share ownership.
- Limited funding compared to venture capital.
- Finding the right angel investor can take time.

Example tip:
Leverage online platforms to connect with potential angel investors who are interested in your industry.

4. CROWDFUNDING

What is it?
Crowdfunding involves raising small amounts of money from a large number of people, typically via online platforms.

Pros:

- Great for validating your product idea before launching.
- You retain full ownership of your business.
- Builds interest and awareness for your product or service.

Cons:

- Success is not guaranteed and requires substantial marketing.
- Crowdfunding platforms take a percentage of the funds raised.
- Failure to deliver promised rewards can harm your reputation.

Example tip:
Offer appealing and achievable rewards for backers, such as exclusive early access to your product or branded merchandise.

5. FLEXIBLE BUSINESS LOANS

What is it?
These include traditional loans, lines of credit, or online lending options tailored to small businesses.

Pros:

- Predictable repayment terms help with financial planning.
- No need to sacrifice ownership.
- Wide range of loans available for different needs.

Cons:

- Requires good creditworthiness to qualify.
- Debt must be repaid with interest, regardless of business performance.
- Failure to repay loans can harm your credit and lead to legal consequences.

Example tip:
Research government or nonprofit loan programs specifically designed for small businesses, as they often come with lower interest rates.

6. EQUITY CROWDFUNDING

What is it?
Unlike traditional crowdfunding, equity crowdfunding allows backers to invest in return for equity in your business.

Pros:

- Access to a wide pool of capital from individual investors.
- Builds a community of backers invested in your success.
- Retain greater control compared to venture capital.

Cons:

- Long approval processes on equity crowdfunding platforms.
- Compliance with regulations can be complex and time-consuming.
- Dilutes ownership among numerous small investors.

Example tip:
Platforms cater specifically to equity crowdfunding for small businesses. Research their requirements before launching your campaign.

7. ASSET FINANCE

What is it?
Asset financing involves borrowing money against existing business assets like equipment, vehicles, or invoices.

Pros:

- Useful for businesses with tangible assets.
- Allows access to capital without selling equity.
- Lower risk for lenders means more flexible terms.

Cons:

- Loss of assets if you cannot repay the loan.

- Only works if the business owns high-value assets.
- May not be suitable for startups with minimal physical assets.

Example tip:
Always assess the value of the asset being financed to ensure it covers the loan amount with room to spare.

8. BUSINESS EXPANSION FUNDING

What is it?
This covers funding options specifically for scaling an already successful business, such as growth-stage loans or targeted private equity investment.

Pros:
- Focused on achieving larger-scale goals like opening new locations or expanding product lines.
- Access to larger funding amounts.

Cons:
- Often requires clear financial proof of scalability.
- May come with higher interest rates or equity demands.

Example tip:
Prepare comprehensive financial reports that clearly show how the investment will result in revenue growth to convince lenders or investors.

9. CUSTOMER PRE-SALES OR RECURRING REVENUE

What is it?
This involves raising funds from customers through pre-orders or regular subscription payments.

Pros:
- Validates your product idea while raising capital.
- No need to give up equity or take on debt.
- Builds customer loyalty.

Cons:
- Relies heavily on strong marketing and trust.
- Failure to deliver can result in customer backlash.
- Requires careful planning to manage timelines and deliverables.

Example tip:
Utilise pre-sales alongside your marketing strategy to create excitement on platforms such as social media.

BUILDING LONG-TERM SUCCESS

Choosing the right funding option depends on your business model, stage of development, and risk tolerance. Bootstrapping is a great starting point, but bringing in external funding sources like angel investors, venture capitalists, or business loans can enable faster growth.

Always weigh the pros and cons of each method and seek professional financial advice to make informed decisions.

By diversifying your funding sources, you minimise financial risk and enhance the likelihood of your business's long-term success! ●

PROTECTION AND KEY PERSON INSURANCE

Securing your enterprise from potential risks should be a priority

Running a business involves navigating various challenges, and one of the most important considerations is ensuring that your business is protected against unexpected setbacks. Whether you are an established business owner or just starting out, prioritising the security of your enterprise from potential risks should be essential.

WHAT IS BUSINESS PROTECTION, AND WHY IS IT IMPORTANT?

Business protection serves as a financial safety net that helps your company remain stable in challenging situations, such as the loss of a key team member. It offers financial security to address issues like sudden illnesses, disabilities, or unfortunate events such as premature death. These policies apply to various business structures in the UK, including partnerships, limited companies, sole traders, and more.

While it's second nature for businesses to safeguard physical property and equipment, protecting human assets is often overlooked despite their critical value. From vital contacts and specialised skills to ensuring business continuity, employees are the backbone of every company. Without effective protection in place, businesses may face significant losses.

TYPES OF EVENTS COVERED

Business protection can help mitigate various risks that could disrupt a business, including:

- Critical illnesses.
- Disabilities that prevent an employee from working.
- The untimely death of a key person.

By putting the appropriate arrangements in place, business owners can safeguard their companies against major setbacks.

UNDERSTANDING DIFFERENT BUSINESS STRUCTURES

Before securing business protection, it's critical to understand how your business is structured. This understanding not only determines your legal obligations but also influences how protections are established.

HERE IS A BREAKDOWN OF KEY BUSINESS STRUCTURES IN THE UK:

1. Sole Traders: Sole traders are personally liable for all debts incurred by the business. Business protection can secure repayment of loans if the sole trader cannot work.

2. Partnerships and LLPs (Limited Liability Partnerships): Partnerships often require protection for scenarios where one partner can no longer fulfil their role. Critical illness or life cover can help others in the business manage such situations.

3. Limited Companies: Directors and significant shareholders often form the backbone of these companies. Key person insurance for directors can provide stability when required.

4. Key Employees: For businesses of all sizes, critical employees such as project leaders or sales managers may need specific safeguarding against unforeseen circumstances.

Each structure has its own challenges, so tailoring a protection plan to suit your business is essential.

WHAT IS KEY PERSON INSURANCE?

Key person insurance is a vital element of business protection. It offers financial compensation to a business in the event of the death or incapacitation of a critical team member. This policy can be invaluable, providing funds that assist the business in recovering from a loss in turnover or in hiring and training replacements.

HOW DOES KEY PERSON INSURANCE WORK?

When your business takes out a key person insurance policy, you pay premiums regularly to maintain the cover. If the insured key employee suffers a covered event (e.g., death or specified critical illness), the insurer pays out a predetermined sum to the business.

This payout could be used for:

- Hiring and training a replacement.
- Replacing lost profits or revenue.
- Covering outstanding business loans tied to the key person.
- Funding recruitment or consultancy services to maintain operations.
- Stabilising cash flow to sustain day-to-day activities.

While you may never replace the experience or personal value of a key employee, key person insurance ensures your business is financially prepared to deal with their absence.

WHY KEY PERSON INSURANCE MATTERS

Many businesses are heavily reliant on one or more employees who possess specialist knowledge, build supplier relationships, or hold significant roles.

Losing this individual without a financial safety net could lead to severe disruption, including:

- **Loss of profits:** When sales and operations falter, business finances can take a hit.
- **Difficulty securing loans:** Lenders may hesitate to approve loans if your business appears unstable.
- **Loss of goodwill:** Relationships with customers and partners rely on trust, which can be hard to maintain when key individuals leave.
- **Recruitment challenges:** Finding and training a new staff member can cost you time and money.
- **Operational disruption:** Institutional knowledge, systems, and workflows can become destabilised when experienced employees are no longer around.

Given these risks, implementing an effective key person insurance policy could be vital for securing your organisation's future.

STEPS TO IMPLEMENT BUSINESS PROTECTION FOR KEY EMPLOYEES

1. IDENTIFY KEY PEOPLE

Evaluate your organisation and identify individuals whose contributions are essential to business continuity.

This might include:

- Business owners and directors.
- Senior managers.
- Sales team leaders who generate significant revenue.
- Employees with specialised knowledge or unique skills.

2. CALCULATE THEIR VALUE

Quantifying the financial impact of losing a key employee is critical.

Consider:

- Their contribution to annual profits.
- The time it would take to replace them.
- The cost of recruitment, training, and temporary cover.

3. CHOOSE THE RIGHT COVER

We can clarify the type of coverage that suits your business needs.

Options include:

- Critical illness cover.
- Life insurance cover.
- Income disability insurance.

Additionally, we'll tailor your policy based on your business structure, the roles of key personnel, and the risks involved.

4. REVIEW REGULARLY

The challenges your business faces today may differ from those it will encounter in the years to come. Ensure you review and adapt your business protection plan as your company evolves.

REAL-LIFE EXAMPLE OF KEY PERSON PROTECTION

Consider a successful manufacturing company where one director handles the majority of supplier negotiations. Without warning, the director becomes unable to work due to illness.

With key person insurance in place, the company receives a lump sum payout, which the co-directors use to:

- Hire external consultants to manage negotiations temporarily.
- Train another team member to take on supplier-facing responsibilities.
- Replace the loss of profits arising from the serious illness of a key person
- Contributions to the medical care of the key person
- Potential financial support for the immediate family of the key person

This payout enables the business to remain operational and minimise financial losses during a challenging period.

> **"TAKE TIME TO ASSESS YOUR CURRENT SETUP AND CONSIDER WHO KEEPS YOUR COMPANY RUNNING SMOOTHLY."**

THE MOST VALUABLE ASSETS ARE YOUR PEOPLE

Running a business presents many challenges, yet neglecting the significance of business protection can leave you exposed to serious financial and operational consequences. Key person insurance is an invaluable resource to protect your business from the unforeseen.

Take time to assess your current setup and consider who keeps your company running smoothly. By implementing well-structured business protection, you can ensure a more secure and sustainable future for your organisation. Remember, your most valuable assets are your people, and protecting them is protecting your business. ●

SHAREHOLDER AND PARTNERSHIP PROTECTION

Ensuring stability and continuity in unforeseen circumstances

For business owners, it is essential to protect your company and ensure its stability and continuity in unforeseen circumstances. Shareholder and partnership protection offers a solution to safeguard the financial health and continuity of your business.

WHAT IS SHAREHOLDER AND PARTNERSHIP PROTECTION?

Shareholder and partnership protection is an agreement among shareholding directors or partners in a business, often supported by life cover. Its purpose is to ensure that, in the event of a shareholder's or partner's death or a diagnosis of critical illness, sufficient funds are available for the surviving partners or directors to purchase the shares of the deceased.

This arrangement ensures that:

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

WHY IS THIS PROTECTION IMPORTANT?

Without a shareholder and partnership protection agreement, several issues could arise:

- The deceased's shares could pass to someone without interest or experience in the business.
- The survivors may lack the funds to buy the shares.
- A new majority shareholder could destabilise the company by selling their take or influencing decisions.

By implementing this form of protection, these risks are mitigated, creating financial stability and clarity for all parties involved.

HOW DOES SHAREHOLDER AND PARTNERSHIP PROTECTION WORK?

INITIAL AGREEMENT AND OPTIONS

The shareholding directors or partners enter into an agreement that gives both parties the option to buy or sell shares rather than creating a legally binding obligation beforehand. This is crucial for tax-efficiency, particularly for claiming relief from Inheritance Tax (IHT).

“

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.

”

However, the Chancellor's Budget on 30 October 2024 contained a proposal far reaching changes to IHT, including a significant restriction on the application of Business Property Relief (BPR), which will take effect on 6 April 2026.

Starting 6 April 2026, significant changes are coming to the way Business Property Relief (BPR) and Agricultural Property Relief (APR) work for IHT, and it's crucial to understand what this means. Under the new rules, BPR will still provide relief at 100% for qualifying assets, but only up to a maximum value of £1 million. This limit also applies collectively to assets qualifying for APR at 100%. If the value of these assets exceeds £1 million, the portion above this threshold will only qualify for relief at 50%. This means half of the value over £1 million will not be protected from IHT and will instead be taxed at the standard 40% rate.

Any qualifying assets above the £1 million limit will effectively face reduced tax relief, resulting in an "effective rate" of 20% on their excess value. For example, if the assets are worth £1.5 million, the first £1 million would be fully exempt, the next £500,000 would qualify for 50% relief, and the remaining 50% of this excess would be taxed at 40%. It's also worth noting that shares listed on the Alternative Investment Market (AIM) are now affected by this change, as they will no longer qualify for 100% relief regardless of their value.

These changes could significantly impact businesses and estates, particularly for those with assets that heavily rely on these reliefs to mitigate IHT. It's an opportune time to review your plans and consider seeking professional advice to ensure your estate is structured to fully benefit from the available reliefs before the changes take effect.

For instance:

- The surviving business partners have the option to buy the shares owned by the deceased.
- The deceased's executors have the option to sell those shares.

When one party exercises the option, it creates a binding contract. However, no binding contract exists until the option is exercised. This type of arrangement is typically set up through a cross-option agreement.

UNDERSTANDING CROSS-OPTION AGREEMENTS

A cross-option agreement, also known as a "double option" or "put and call" agreement, ensures proper arrangements are in place if a business owner dies or becomes critically ill.

Key features include:

- It is not legally binding regarding the sale of shares until exercised.
- It enables all parties to plan for share transfer in a tax-efficient manner.

For example, if a shareholder unexpectedly passes away:

- The surviving shareholders can exercise their option to buy the shares.
- The deceased's estate can exercise its option to sell the shares.

This ensures a smooth transition without disrupting the company's operations. Importantly, the agreement's non-binding nature before the options are exercised helps provide tax benefits.

LIFE ASSURANCE AND FUNDING THE AGREEMENT

The financial aspect of buying the deceased's shares often requires careful planning. This is where life assurance policies come into play. Each shareholder or partner takes out a policy on their own life, with the other partners or the business as beneficiaries.

When a claim is made (e.g., due to death), the payout provides the necessary funds to buy the deceased's shares.

Example:

- A business has three equal shareholders.
- One shareholder passes away unexpectedly.
- Through the cross-option agreement, the surviving two shareholders exercise their right to purchase the deceased's shares.
- The life assurance payout funds the transaction, ensuring the deceased's family receives the value of the shares while the business remains under the control of the survivors.

OTHER PROTECTION OPTIONS AVAILABLE

While shareholder and partnership protection is ideal for safeguarding shares, additional protection measures can help ensure broader financial security.

1. LIFE COVER

This is a basic option that provides a lump sum to the business or nominated beneficiaries if a person covered under the policy passes away.

Benefits:

- Straightforward to set up.

- Offers financial support to cover share purchases or other business continuity needs.

2. CRITICAL ILLNESS COVER

This cover offers a payout if a covered individual is diagnosed with a specified serious illness. It ensures financial stability during difficult times when a key person cannot work.

Key Features:

- Helps cover essential costs or loss of revenue.
- Can prevent financial strain on both the individual and the business.

3. COMBINED LIFE AND CRITICAL ILLNESS COVER

For comprehensive protection, combined cover ensures a payout either in the event of death or a specified critical illness. This offers flexibility based on different potential outcomes.

4. RELEVANT LIFE COVER

A relevant life policy is a tax-efficient life assurance option for business owners seeking to provide cover for key employees without using a group life scheme. This is intended for Death in Service type cover to benefit the employee's family in the event that he/she passes away during employment. This cannot be used for Shareholder protection.

How it works:

- Set up by the employer for an individual employee.
- Ensures their dependents receive funds in the event of their death.
- The premiums may qualify as a business expense for tax purposes, offering further financial incentives.

5. POLICIES THAT PAY A REGULAR INCOME

Certain policies are tailored to pay a regular income in case of sickness or incapacity, providing essential financial support during recovery periods.

PRACTICAL STEPS TO IMPLEMENT SHAREHOLDER OR PARTNERSHIP PROTECTION

Follow these steps to establish effective protection for your business:

- **Review your business structure**
  Identify the ownership structure (e.g., partnerships vs. limited companies) and determine the best approach for share transfer in the event of death or critical illness.
- **Draft a cross-option agreement**
  Work with legal professionals to ensure the agreement meets your specific needs and complies with UK laws.
- **Assess the valuation of business shares**
  Agree on how the shares will be valued to avoid disagreements later.
- **Arrange life assurance policies**
  Ensure every partner or shareholder has the appropriate policy, with sufficient payout to buy the deceased's shares.
- **Evaluate other protection needs**
  Consider adding supplemental critical illness cover or relevant life policies based on your circumstances.
- **Regularly review the agreement and policies**
  Businesses evolve, so it's essential to periodically reassess your protection arrangements to ensure they remain relevant.

SAFEGUARDS YOUR COMPANY AND BENEFITS ALL INVOLVED

Shareholder and partnership protection is an invaluable tool for business owners. It not only provides financial security but also ensures that your business remains under the control of trusted partners during challenging times.

By combining legal agreements like cross-option arrangements with appropriate life assurance, you can create a robust plan that safeguards your company and benefits everyone involved. ●

RETIREMENT PLANNING

Creating a safety net that ensures financial security for the later stages of your life

Running your own business can be all-consuming, but while you're busy building a successful enterprise, it's crucial not to overlook your personal financial future. Many business owners focus on the growth and stability of their companies, yet they often fall short in establishing a robust retirement plan.

Planning for retirement is essential for business owners. With thoughtful consideration, you can establish a safety net that provides financial security for the later stages of your life.

Let's break it down step by step.

STEP 1: UNDERSTAND WHY RETIREMENT PLANNING IS CRUCIAL

It's common for business owners to believe that their business will provide for them in retirement. You may have heard or even said, "My business is my pension." While this approach is understandable, it can be risky. What if your company doesn't generate the expected value or income when the time comes?

Relying solely on your business makes you vulnerable. Diversifying with a pension plan allows you to hedge against uncertainties while enjoying tax advantages and ensuring long-term financial security. By planning now, you'll avoid the possibility of needing to work later in life than you'd prefer.

Quick Tip: You don't have to choose between your business and a pension plan. A combination of both provides you with flexibility and reduces financial risk.

STEP 2: EXPLORE THE TAX BENEFITS OF PENSIONS

One of the most attractive aspects of planning for retirement with a pension is the array of tax benefits available in the UK.

For example:

- **Tax relief on contributions**
  Pension contributions qualify for tax relief at your marginal income tax rate (20%, 40%, or 45%) subject to the annual allowance.
- **Corporation tax savings**
  If you operate a limited company, contributions made by your company are usually treated as allowable business expenses. This means they can reduce your corporation tax bill.
- **Tax-free investment growth**
  Funds within a pension grow free from Income Tax and Capital Gains Tax.
- **Inheritance Tax efficiency**
  Pension funds can currently be passed on to your beneficiaries free of UK Inheritance Tax. However, from April 2027, pensions will no longer be exempt.

Quick Tip: Speak with us to maximise the tax benefits while staying within annual and lifetime allowances. For the 2025/26 tax year, you can contribute up to £60,000 annually to your pension (or up to 100% of your annual earnings if lower) and still receive tax relief.

STEP 3: KNOW YOUR OPTIONS FOR SAVING

The UK offers several retirement savings vehicles, each with its unique advantages and features.

Below are some key options tailored to business owners:

1. SELF-INVESTED PERSONAL PENSIONS (SIPPS)

A SIPP provides flexibility to manage your own investments while enjoying the tax benefits of a traditional pension.

With a SIPP, you can invest in a range of assets, such as:

- UK and foreign equities
- Commercial property (e.g., office or retail spaces)
- Unit trusts and investment trusts
- Gilts and corporate bonds

Example: You can even use your SIPP to purchase the commercial property from which you run your business. This provides a dual benefit. Your business pays rent to the SIPP, which, in turn, helps to grow the pension fund.

Quick Tip: SIPPs are more complex than standard pensions and require professional management and financial advice.

2. SMALL SELF-ADMINISTERED SCHEMES (SSASS)

A SSAS is a company-sponsored pension scheme designed primarily for directors and key employees. It provides all the benefits of a SIPP, plus additional features such as the ability to loan up to 50% of the fund's net value back to your business.

Example: If your business needs a capital injection, you can borrow from your SSAS to purchase stock, equipment, or finance growth initiatives.

Quick Tip: A SSAS is defined as a Self-Administered Scheme that is generally limited to 12 members, so it can also be shared with family and key employees. Assets within the scheme are locked away for retirement but can offer tax-efficient solutions for both business and personal needs.

3. EXECUTIVE PENSION PLANS (EPPS)

An EPP is a tax-efficient occupational pension designed for company directors and key employees. The employer contributes, and the plan is set up under a trust.

Key Benefits:

- Contributions reduce employer taxable profits.
- There is no National Insurance Contributions liability on contributions.

These plans also offer flexibility, enabling early retirement or a transition into a supporting business role while drawing pension benefits.

Quick Tip: Use EPPs as part of an employee benefits package to attract and retain top talent.

STEP 4: STRATEGIES FOR MANAGING COMMERCIAL PROPERTY IN PENSIONS

Incorporating property into your pension (via a SIPP or SSAS) provides several advantages for business owners with commercial premises.

OPTION 1: RELEASING EQUITY FUNDS MODEL

If you already own a business property, you can place it into a SIPP or SSAS. This allows you to exchange accumulated pension funds for property ownership while freeing up cash in the business.

OPTION 2: FUNDED PURCHASE MODEL

Use pension funds to purchase property outright or combine funds with borrowing (up to 50% of the net pension value) to make the purchase.

Benefits of property investment:

- Rental income contributes to pension fund growth.
- Tax-efficiency through Capital Gains Tax exemption within the pension fund.

Practical Tip: Ensure that property investments comply with pension regulations. Professional guidance and advice is essential to avoid unexpected tax liabilities.

STEP 5: PLAN FOR FLEXIBILITY AND THE FUTURE

Business owners need retirement plans that can adapt to changing circumstances.

Here's how to stay prepared:

- **Avoid over-contribution penalties**
  Keep track of your pension contributions to ensure they stay within the Annual Allowance limits. If you exceed allowances, you could be subject to tax penalties.
- **Keep lifelong allowances in mind**
  While the lifetime allowance for pensions was abolished in 2023, keep an eye on any future legislation changes that may affect long-term savings.
- **Consider succession planning**
  If part of your retirement plan is to sell your business, start preparing it for sale early. Pensions can help reduce Capital Gains Tax liability upon selling your company.

- Combine options for maximum benefit
  You don't need to choose between a SIPP, SSAS, or EPP. A blended approach can create a personalised plan tailored to your financial and business needs.

STEP 6: SEEK EXPERT FINANCIAL ADVICE

Retirement planning involves complexities, particularly for business owners who must navigate both personal and company finances. We can provide clarity on pension allowances, investment opportunities, and tax strategies. We will help align your retirement plan with your current business goals and long-term personal ambitions.

DIVERSIFYING WITH PENSIONS TO CAPITALISE ON TAX ADVANTAGES

Your business is undoubtedly one of your most valuable assets, but it shouldn't be your only source of financial security for retirement. By diversifying with pensions such as SIPPs, SSASs, or EPPs and capitalising on tax advantages, you can build a stable foundation for the future. Start taking proactive steps today to safeguard your retirement dreams and ensure peace of mind for years to come. ●

> **“NAVIGATING PENSION STRATEGIES AS A BUSINESS OWNER BRINGS UNIQUE OPPORTUNITIES AND CHALLENGES, BUT THE REWARDS OF PLANNING EARLY ARE WELL WORTH THE EFFORT.”**

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.

SMALL SELF-ADMINISTERED SCHEMES (SSAS) PENSIONS AND EXECUTIVE PENSION PLAN (EPP) PENSIONS ARE NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY. THEY REGULATED BY THE PENSIONS REGULATOR (TPR)

SUCCESSION PLANNING

Securing your legacy and the ongoing success of your business

Running a business, especially a family-owned or closely held enterprise, requires your full attention. However, amidst these operational demands, it is vital to consider your business's future when you step away. Ensuring a smooth ownership transition through succession planning is key to securing your legacy and the ongoing success of your business.

Succession planning offers peace of mind, enabling you to leave your business on your own terms while ensuring its continuity. We can assist you in understanding your options, outlining the steps to create an effective plan, and assessing your readiness.

WHY SUCCESSION PLANNING MATTERS

Succession planning ensures that your business can continue to function and thrive after your departure, whether you're passing it on to family, selling it, or implementing a management buyout. Without a well-structured plan, businesses risk facing disruptions, uncertainty, and even failure.

A good plan helps you:

- Exit your business smoothly, without unforeseen problems.
- Secure its legacy and preserve its goodwill.
- Ensure a seamless transition for employees, leadership, and stakeholders.
- Protect and reassure clients and customers about continuity.

UNDERSTANDING YOUR SUCCESSION PLANNING OPTIONS

There are three main succession planning strategies to consider. Each option has its own advantages, challenges, and implications.

Here's an overview:

1. KEEPING THE BUSINESS IN THE FAMILY

Passing your business down to a family member, such as a son, daughter, or another relative, can preserve its legacy within the family.

Pros: Your family retains control of the business, you might avoid searching for external buyers, and shared values often lead to alignment on long-term goals.

Cons: Family dynamics can complicate decision-making. It is essential to recognise and address potential conflicts, such as disputes over leadership.

2. SELLING THE BUSINESS

Selling your business to an external buyer opens up opportunities to monetise your hard work, paving the way for your retirement or future ventures.

Pros: A sale can provide financial security and open the door to buyers looking to grow and develop your company with fresh perspectives.

Cons: Finding the right buyer with the requisite expertise and vision can be challenging. The process can also be lengthy and requires careful consideration of valuation and negotiation.

3. MANAGEMENT BUYOUT (MBO)

This approach involves selling the business to your current management team, who understand its operations thoroughly and are already invested in its success.

Pros: Familiarity within the team ensures continuity, and customers and stakeholders will likely experience minimal disruption.

Cons: Your team may need financing to complete the buyout, which can require external funding or investment. ●

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SOMEONE'S SITTING IN THE SHADE TODAY BECAUSE SOMEONE PLANTED A TREE A LONG TIME AGO.

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DEVELOPING A SUCCESSFUL SUCCESSION PLAN

Steps that form the foundation of any effective plan

Planning for the future is a key responsibility of any business owner, and succession planning lies at the heart of long-term stability and growth. A well-thought-out succession plan ensures that your business is equipped to handle leadership transitions smoothly, whether they come unexpectedly or as part of a planned retirement. However, creating an effective plan isn't something you can rush. It requires time, effort, and careful consideration to address all the essential elements.

The foundational steps of a solid succession plan serve as a roadmap for preserving your company's vision, values, and success well into the future. These steps not only help protect your legacy but also provide clarity and confidence for employees, stakeholders, and future leaders.

While every business needs a tailored approach, the following steps form the foundation of any effective plan:

1. SET CLEAR GOALS

Define your personal and business goals. Are you aiming for maximum financial returns, keeping the business within the family, or upholding certain values after your departure? Clarity regarding these objectives will guide your decisions.

2. ESTABLISH A TIMELINE

Decide when you want the transition to take place. Whether it's an upcoming retirement date or preparing for unexpected events, having a timeline provides structure.

3. IDENTIFY YOUR SUCCESSOR

Be honest about who is best suited to take over. If family members aren't the right choice, consider management or external buyers.

4. ASSESS FINANCIAL IMPLICATIONS

Ensure a smooth transition by addressing financial essentials such as taxation, estate planning, and liquidity for the business. Speak with experts to mitigate risk and make informed choices.

5. COMMUNICATE EFFECTIVELY

Transparent communication reduces uncertainty. Inform employees, stakeholders, customers, clients, and suppliers about your intentions at the appropriate time to maintain trust.

6. SEEK PROFESSIONAL GUIDANCE

In addition to engaging with us, you'll also need a solicitor and accountant to help you avoid costly mistakes and ensure no detail is overlooked.

7. CREATE A CONTINGENCY PLAN

Life can be unpredictable. Make sure your plan includes safeguards for unexpected circumstances, such as illness or sudden absence, ensuring your business won't falter in your absence. ●

SUCCESSION PLANNING CHECKLIST

Ten essential questions every business owner should ask

Succession planning is more than just a safety net for your business; it's a strategic move that ensures your company can thrive for years to come. Whether you're planning to retire, take a step back, or simply prepare for the unexpected, establishing a solid foundation for a smooth transition is essential. Yet, many business owners postpone this critical process, uncertain of where to begin or how to evaluate their readiness.

To help you take those first steps, we have put together a list of ten essential questions every business owner should ask themselves. These questions are designed to assist you in evaluating your current strategy, identifying gaps, and paving the way for a successful handover when the time comes. By addressing these key considerations, you will not only protect the legacy of your business but also position it for future growth and success.

CONSTRUCTING A MORE ROBUST FUTURE

Succession planning focuses on protecting the future of your business and its stakeholders. By dedicating time to develop and implement a strong plan, you ensure that the years of effort you've invested will continue to yield benefits.

Working with us as your trusted advisers will make the process more efficient and secure. Taking this step now means you're not just planning your exit; you're building a more robust future. ●

CHECKLIST

Here are ten essential questions every business owner should ask to evaluate their readiness for succession planning:

1. What are my personal goals and vision for the business's future?
2. Have I identified a successor who meets the business's needs?
3. Are there unresolved family issues that could affect ownership or leadership decisions?
4. Does my plan minimise estate taxes effectively?
5. Is there enough liquidity to prevent a forced sale of the business?
6. Have I executed legal agreements, such as a buy-sell agreement, to prepare for an ownership transition?
7. Have I created a contingency plan for sudden illness, incapacity, or unforeseen circumstances?
8. Should I consider alternative business structures or ownership transfer techniques?
9. Will I or anyone else depend on the business for income during retirement?
10. Have I recently assessed my business's market value and financial health from the perspective of potential buyers?

ESTATE PLANNING AND INHERITANCE TAX

Protecting your family's financial security, your business's stability, and your employees' livelihoods

Owning a business often leaves little time to contemplate what may happen in the future. While day-to-day management and growth take centre stage, considering the long-term effects of unforeseen events is crucial. A well-thought-out estate plan ensures that your business and loved ones are protected, regardless of what occurs.

WHY IS ESTATE PLANNING ESSENTIAL FOR BUSINESS OWNERS?

Many business owners tie a significant portion of their wealth to their business. Without an estate plan, you risk jeopardising everything you've worked for. Your family's financial security, your business's stability, and employees' livelihoods could all be at risk.

Having a robust plan achieves two vital goals:

- It provides a smooth transition of leadership or ownership.
- It simplifies complex processes for your loved ones during turbulent times.

SECURING YOUR LEGACY

A clearly defined estate plan not only provides financial stability for your family but also ensures the continuity of your business. Whether you want the company to be managed by trusted partners, sold, or wound down, documenting these wishes will prevent uncertainties and unwarranted disputes.

KEY ELEMENTS OF ESTATE PLANNING FOR BUSINESS OWNERS

1. THE IMPORTANCE OF A WILL

Your Will is the legal foundation of your estate plan and ensures your wishes are honoured.

Without a Will:

- Intestacy laws apply, which can divide your assets between close relatives, often without reflecting your specific wishes.
- Family members with no business knowledge might inherit shares, leading to potential operational disruptions or forced sales.
- The business could be broken up if partners are unable or unwilling to buy out family members.

Through a well-drafted Will, you can dictate precisely how your business is handled upon your death. For instance:

- Leave instructions for a chosen successor or business sale.
- Allocate shares in a way that avoids disputes between family members and business partners.

2. LASTING POWER OF ATTORNEY (LPA)

While many business owners prepare a Will, few know the importance of a Lasting Power of Attorney (LPA). An LPA allows you to assign a trusted person, known as an attorney, to make critical decisions on your

THE ABSENCE OF AN LPA COULD FREEZE YOUR ASSETS, HALT BUSINESS OPERATIONS, AND LEAD TO LENGTHY LEGAL BATTLES.

behalf if you lose mental capacity due to illness or accident.

Without an LPA:

- Your accounts (even joint accounts) may be frozen.
- You would cease to qualify as a director of your company.
- A court-appointed deputy would take months to gain authority, incurring additional legal costs.

With an LPA in place:

- Your attorney can act swiftly, ensuring business decisions are made without delay.
- Financial support remains accessible to your family during times of crisis.

Tip: Appoint someone you trust and who understands your business. For complex businesses, consider creating a business-focused LPA alongside a personal LPA.

3. USING TRUSTS FOR ASSET MANAGEMENT

Trusts are powerful tools for managing business assets and mitigating risks. A trust allows you to retain control over your business while safeguarding the interests of beneficiaries.

Benefits include:

- Protecting your business income without passing control directly to beneficiaries.
- Ensuring continued operations if you become incapacitated or retire.
- Safeguarding your business assets from being sold or improperly managed.

For example, trustees (such as co-owners or family members) can manage the business, ensuring continued income for the family without their involvement in daily operations.

4. CROSS-OPTION AGREEMENTS FOR MULTIPLE OWNERS

If your business has multiple shareholders, managing share ownership upon death is crucial to avoiding unwanted complications. A 'cross-option agreement' ensures shares go where you want them to go.

Here's how it works:

- Shareholders agree in advance that surviving shareholders can buy the deceased's shares.
- Life insurance policies fund the purchase, providing beneficiaries with income without disrupting the company's structure.

This creates a seamless transition and avoids bringing external shareholders into the business.

5. ADDRESSING FAMILY SPECIFIC DYNAMICS

For family-owned businesses, estate planning becomes more complex.

Challenges could include:

- **Unequal interest among your children:** One may wish to run the business while others prefer financial inheritance.
- **Continuation of family support:** Ensuring your spouse or partner is provided for while enabling your children to inherit.
- **Bloodline protection:** Preventing assets from leaving the family, for example, through divorce.

Tailored planning can resolve these dynamics. For example, giving operational control to an interested child while distributing income from the business to others can strike a balance. ●

BUSINESS RELIEF

Maximise your legacy with smart strategies to save on Inheritance Tax

Inheritance Tax (IHT) can significantly lower the value of your estate. Currently, Business Relief (BR) is available to business owners who maintain qualifying business assets for at least two years and continue to hold them until their death.

However, one of the changes proposed in the Autumn Budget 2024 concerns the Inheritance Tax Business Relief. Effective from April 2026, these types of assets will have reliefs capped at 100% for the first £1 million of qualifying assets. For valuations exceeding £1 million, the relief will reduce the IHT payable by 50%.

WHAT IS BUSINESS RELIEF?

BR reduces the value of a business or its assets when calculating IHT. If eligible, you could currently qualify for either 50% or 100% relief, depending on the ownership and type of asset.

Eligibility includes:

- Businesses or business interests (100% relief).
- Unquoted shares in a company (100% relief).
- Land, buildings, or machinery owned personally but used in the business (50% relief).

To qualify:

- The business must have been owned for at least two years.
- It must not primarily deal in land, investments, or stocks.

ADDITIONAL OPPORTUNITIES

Since 2013, BR-qualifying AIM-listed shares can also be held within Individual Savings Accounts (ISAs), offering a potential way to mitigate IHT while benefiting from ISA tax efficiencies.

UPDATING YOUR ESTATE PLAN

Life changes, and so should your estate plan. Regular updates will ensure that everything stays aligned with your wishes and takes advantage of any changes in UK inheritance laws.

Key moments to update your plan:

- Birth of a child or grandchild.
- Changes in marital status (e.g. marriage, divorce).
- Significant business growth or restructuring.
- Legislative updates impacting tax relief or inheritance distribution.

SECURING YOUR BUSINESS, WEALTH, AND THE WELLBEING OF YOUR FAMILY

Planning for the future is a vital part of being a responsible business owner. While it might feel daunting, the benefits of careful estate planning far outweigh the challenges. By drafting a Will, creating an LPA, utilising trusts, and exploring options like cross-option agreements and BR, you can build a plan that secures your business, wealth, and the wellbeing of your family.

Whether you're managing a small family-run firm or a thriving enterprise, by engaging with us, we'll tailor your plan to your unique circumstances. ●

"

A PROACTIVE APPROACH TODAY ENSURES PEACE OF MIND FOR TOMORROW.

"

FORWARD-THINKING STRATEGIES

Foundation for achieving both your professional and personal aspirations

Business financial planning is more than just a smart business move; it is the foundation for achieving both your professional and personal aspirations. Effective financial planning ensures that your business continues to thrive, facilitates a seamless transition when it is time to exit, and protects the financial future you have worked hard to build.

Business financial planning provides clarity and confidence for complex decisions. Whether mapping out a secure retirement, mitigating tax obligations, or ensuring a smooth succession, the right plan empowers you to maintain control of your wealth every step of the way.

Your goals and challenges are unique, and the advice you receive should reflect that. We are here to provide personalised, forward-thinking strategies specifically tailored for business owners like you. ●

Take the first step towards a more secure financial future. Contact us today for insights and guidance that will help you maximise your wealth, both now and in the years to come.

TIME TO SAFEGUARD YOUR BUSINESS AND PERSONAL WEALTH? WE'RE HERE TO HELP.

Our expertise lies in assisting business owners like you to strategically plan, organise, and safeguard their business with precision and care.

Contact us for a comprehensive assessment of your situation and discover tailored strategies designed to meet your specific needs.

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

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