Stratton
wealth management

5 reasons every business owner needs a financial planner right now

Running your own business is a huge accomplishment that requires an enormous amount of time and commitment. It's no surprise, then, that many business owners neglect to give their own financial goals the dedication they deserve.

Whether you own a relatively new or well-established business, the challenges of managing your company's projects, cashflow, efficiencies and objectives can be all-consuming.

Yet it's really important to think about how your business could impact your personal finances – both now and in the future.

Your business can and should be working in line with your personal, family, life and retirement aspirations – and this is where a financial planner can help.

Whereas an accountant will typically just crunch the numbers, a financial planner will work with you to develop a comprehensive plan that is tailored to you, your family, and your business.

There are five key areas a financial planner will look at:

1. Are you saving enough for a comfortable retirement by using all the allowances you're entitled to?
2. Does your business have the right type of insurance in place?
3. Are your company's cash reserves growing as well as they could be?
4. Are you extracting money from your business in the most tax-efficient way?
5. What kind of legacy do you want to leave for your family?

In a nutshell, a financial planner will take the stress out of organising your finances, so you can concentrate on what you do best – running a successful business.

If you want to find out more, email
info@strattonwm.co.uk
or call
0800 970 8984
to arrange a free initial consultation.

Client testimonial:

"As a business owner and father of four children, finances are usually the last thing we think about. Stratton oversees and manages our finances, both in terms of advice for my business and our personal investments. It is comforting to know that our retirement, investment and life insurance planning has been taken care of. Darius and John are always so efficient in dealing with our affairs. As someone with no real understanding of the ins and outs, it has been fantastic to have experts giving us great advice and making sure our best interests are always the top priority."

Lee and Claire Parkinson (Clients of Darius since 2016)

1. Pension planning through your business could offer significant tax benefits

It's possible to boost your pension pot and achieve tax savings for your company by making a few tweaks to the way you're paid and how your business is set up.

Make employer pension contributions

Like many business owners, you might be taking a small salary from your company. Perhaps you're just starting out, or you're paying yourself large dividends which are usually taxed at a lower rate than salary?

The downside of this is dividends don't count as 'relevant UK earnings' and so they won't be used to calculate your pension tax relief limit. Only your salary will be taken into account.

Currently, the pension tax relief limit is 100% of your salary with a cap of £40,000. This is known as your Annual Allowance. For example, if you earn £15,000 in salary and £20,000 in dividends, the maximum amount you can pay into your pension each year is £15,000.

If you want to increase your pension contributions and make full use of your Annual Allowance you have two options:

1. Increase your salary
2. Make pension contributions from your business.

Although employer and personal pension contributions both count towards the £40,000 Annual Allowance, employer contributions aren't limited by salary.

What's more, making a pension contribution from pre-taxed company income is an allowable business expense. This means your business will receive tax relief against Corporation Tax and effectively save 19% on pension contributions.

A £100 pension contribution from your company costs £81 because of the 19% reduction in Corporation Tax payable.

The other advantage is that, unlike a salary payment, employers don't have to pay National Insurance on pension contributions. With the National Insurance rate currently set at 13.8%, your business could make an overall saving of up to 32.8% (19% plus 13.8%) by making a contribution into your pension rather than paying you the corresponding amount in salary.

Employer pension contributions must be made 'wholly and exclusively for the purposes of the business' in order to receive relief from Corporation Tax. This means the contribution should be at a reasonable level for the individual concerned.

Use your spouse's allowance

If you're part of a couple, it's important to consider your spouse when planning your finances.

Every individual has a pension Annual Allowance of £40,000 so, if you have a spouse, your combined Annual Allowance doubles to £80,000. Since many businesses are a joint team effort, one way of increasing your combined pension pot could be to make employer contributions into your spouse's pension as well as into your own.

Remember, however, that pension contributions will only receive relief from Corporation Tax if they're made wholly and exclusively for the purposes of the business.

Please note:

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. Your pension income could also be affected by the 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.

Buy your business premises through a SIPP

Another way of using a pension more efficiently is to purchase your business premises through a Self-Invested Personal Pension (SIPP). A SIPP offers a lot more investment choice than an ordinary personal pension, including the ability to invest directly in UK commercial property.

This approach has several tax advantages:

- There's no income tax to pay on any rent you receive
- If you sell the property, you don't have to pay Capital Gains Tax
- The property is outside your estate for Inheritance Tax purposes
- If you're paying rent, it's treated as a tax-deductible business expense.

Buying commercial property through a SIPP is very complex, so it's important to get financial advice.

2. Business protection will protect your company if a key person dies

When you own a business, it's crucial to have the right insurance in place.

You probably already have insurance for your business premises, but have you thought about what would happen if you or another key person in the business died or became critically ill?

A financial planner will ensure you have comprehensive business protection insurance. There are three main types of cover to consider:

1. **Key person protection** pays out a lump sum of money if an important employee dies or is diagnosed with a critical illness. The money is paid directly to the company or partners and can be used to cover things like loss of profits, recruitment costs, sick pay or debts.
2. **Shareholder protection** lets business owners buy shares back from a partner who is diagnosed with a critical illness or dies. Without this protection in place, the shareholder's shares would pass to their estate on death – meaning part of the firm could be owned by family members who have no interest in the company's future.
3. **Relevant life cover** is a life insurance plan which pays a lump sum to an employee's family if they die while being employed by the firm. The employer pays the premiums and owns the policy.

These types of business protection are vital to ensure business continuity. What's more, relevant life cover can be tax-efficient for both the employer and the employee.

For the employer, the cost of a relevant life plan is usually an allowable business expense, which means your business gets tax relief on the premiums. For the employee, the lump sum is normally paid without attracting Inheritance Tax and it doesn't form part of their pension Annual or Lifetime Allowances.

If appropriate, you could cancel your personal life insurance, switch to a relevant life plan and let your business pay the premiums.

7 in 10 business owners have never heard of relevant life cover.

(Source: Royal London)

3. Investing cash reserves could boost your business' financial health

Most businesses need to reserve cash. But, if your money is sitting idly in a low interest savings account, it could be losing value. In recent months, many providers have slashed their interest rates, so it's a good idea to look at what other accounts are out there.

The account that's best for your business will depend on how much cash your business has and how quickly you need to access it. Easy access savings accounts let you withdraw money instantly, whereas fixed-term savings accounts lock funds away for a set period. Usually, the longer the term, the higher the interest rate.

Since interest rates can change frequently, one way of making things simpler is to sign up to a savings platform. A savings platform offers access to a variety of different savings deals and it alerts you when your current deal is coming to an end. Switching accounts is all done through the centralised platform, making it faster than applying for an account directly yourself.

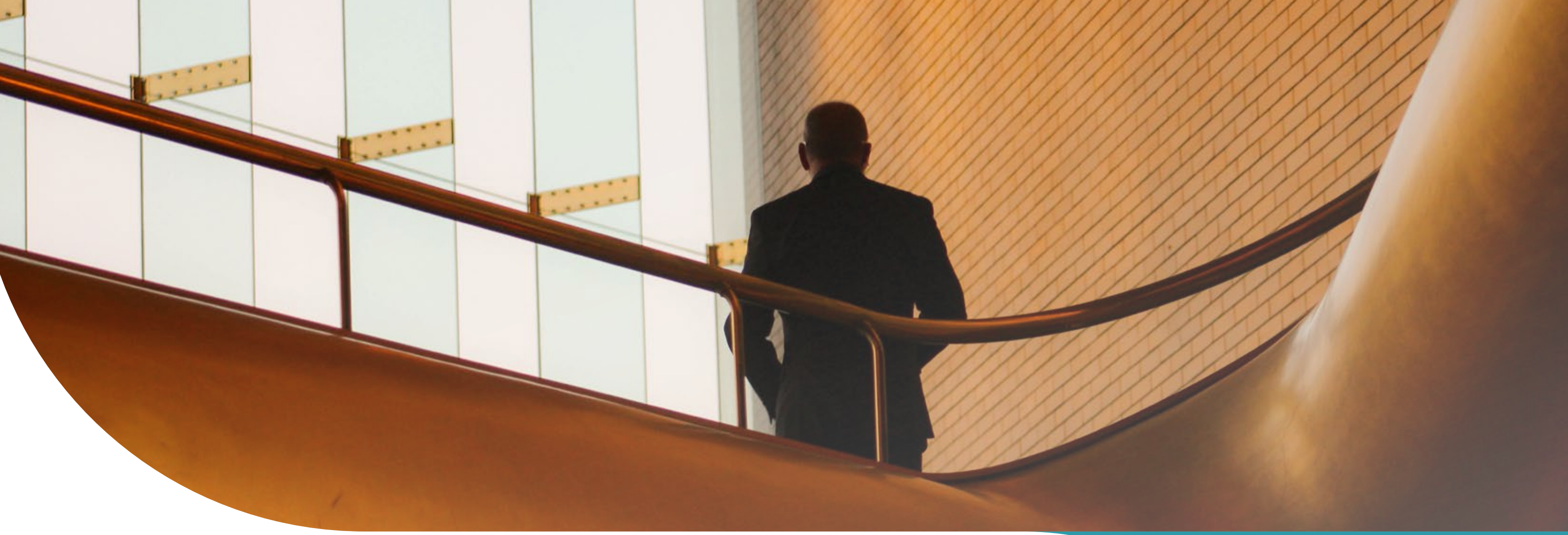
Interest rates on cash are currently very low, so you might want to consider investing surplus capital in the stock market in the hope of generating a greater return. Investing in shares is riskier than leaving your cash in a bank account, so you need to have a reasonable degree of investment knowledge. You shouldn't invest more money than your business can afford to lose if the investment fails.

Some other options for managing a cash surplus include distributing the cash as dividends, making pension contributions, and reinvesting it back into the business for future growth.

Again, working with a financial planner can help you to get the most from your capital.

Please note:

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance should not be treated as a guide to future returns.



4. A structured approach to extracting capital is extremely tax-efficient

You can make your business highly tax-efficient by structuring the way you extract money from the company.

Your accountant might have mentioned this previously, but since these conversations tend to occur at the time of drawing up your accounts, it's often too late to fully benefit.

It can pay to work collaboratively with a financial planner and your accountant to ensure things like pension contributions are factored in before your accounts are finalised. Your planner won't simply crunch the numbers but will take a holistic approach that considers your wider financial needs and goals.

The three main routes to extract profits from your own limited company are:

1. Pension contributions
2. Salary
3. Dividends.

As we've already mentioned, pension contributions are a very tax-efficient way of extracting money from your business because they don't attract Corporation Tax or National Insurance.

As well as reducing your company's tax bill, making pension contributions is a great way of preparing for your retirement in later years. If you make an employer contribution, you'll receive the whole amount into your pension. But if you make a personal contribution, the money is from after-tax income, so Income Tax and National Insurance have already been deducted.

Employer pension contributions are a very efficient way of ensuring you maximise your Annual Allowance.

In the meantime, it's highly likely you'll need some form of income to live off – and that's where salary and dividends come in.

A salary is the simplest way to pay yourself and, in most cases, it's wise to take a minimum salary. The first £12,500 of income is tax-free (2020/21 tax year) and after that you'll pay tax according to your marginal Income Tax band.

You can balance your salary with dividend payments – as long as your business is making enough profit to cover them. Unlike salary, dividends are exempt from National Insurance. You can receive up to £2,000 of dividends each year without paying any tax. For amounts over this allowance, basic rate taxpayers pay 7.5%, higher rate taxpayers 32.5% and additional rate taxpayers 38.1%.

Venture Capital Trusts and an Enterprise Investment Scheme

Another way of extracting money from your business tax-efficiently is to invest in a Venture Capital Trust (VCT) or an Enterprise Investment Scheme (EIS). However, these are very high-risk investments which are only suitable for high net worth and sophisticated investors.

A VCT is a publicly listed company which invests in smaller, unquoted companies. If you invest in a newly issued VCT you can qualify for 30% Income Tax relief, although you must hold the shares for at least five years to qualify. If you sell your shares, you won't have to pay Capital Gains Tax. The maximum amount you can invest is £200,000 per tax year.

An EIS helps start-up and early-stage companies raise finance. If you hold shares for three years, you'll qualify for 30% Income Tax relief and you won't have to pay Capital Gains Tax. After two years, your EIS shares will be exempt from Inheritance Tax. The maximum amount you can invest is £2 million. If you've a realised a gain elsewhere – for example from selling investments – you could consider investing the proceeds in an EIS to defer the gain.

Please note

VCTs and EISs are high-risk investments and you could lose all your money. VCTs and EISs are also illiquid, so you could struggle to sell your shares at a price that reflects the value of the underlying assets. You must seek financial advice before investing.

5. Planning for the future means your assets are protected long after you've gone

Understandably, most business owners don't like to think about what would happen to their company if they became ill or died. But failing to put a succession plan in place could see your hard work go down the drain and your loved ones facing a huge tax bill.

The most basic legacy planning tool is a will. This lets you specify how your personal and business assets will be distributed when you die and who will be responsible for disbursing those assets.

Even if you already have a will, there might be valuable tax planning opportunities that you haven't taken full advantage of.

One of the most important tax reliefs to be aware of is Business Relief. This reduces the amount of Inheritance Tax (IHT) payable on the transfer of qualifying business assets. For some assets, the reduction is 100%, which means the asset is effectively exempt from IHT.

You can get 100% Business Relief on:

- **A business or interest in a business**
- **Shares in an unlisted company.**

You might also qualify for Business Asset Disposal Relief, which used to be known as Entrepreneur's Relief. This reduces the amount of Capital Gains Tax you must pay when you sell (dispose of) all or part of your business. If you qualify, you'll pay tax at 10% on all gains on qualifying assets. You can claim a total of £1 million in Business Asset Disposal Relief over your lifetime.

Planning in advance will give you the best chance of avoiding a hefty tax charge. A financial planner will take a thorough look at your personal and business assets to advise you on the best ways to protect your hard-earned wealth and property.

We're here to help

Understanding the intricacies of the relationship between your business and personal finances can be daunting, but we're here to help. Our advisers have years of expertise in ensuring our clients' finances are set up in the most tax-efficient way and protecting the financial futures of their businesses and families.

We will help you to:

- Establish the things you want to achieve – both the big, lifelong goals and the general aspects of your life and business
- Understand what you have – we'll organise and understand every element of your business and personal finances
- Make the most of what you have – we'll recommend effective changes to your financial arrangements that will help to ensure you're making the most of available allowances and efficiencies
- Picture the future – we'll use cashflow modelling to help you visualise the future and create a thorough plan that will give you a step-by-step guide to achieving your goals
- Stay on the right track – we'll work with you as you move towards your goals and help to keep you on track should your needs or circumstances change.

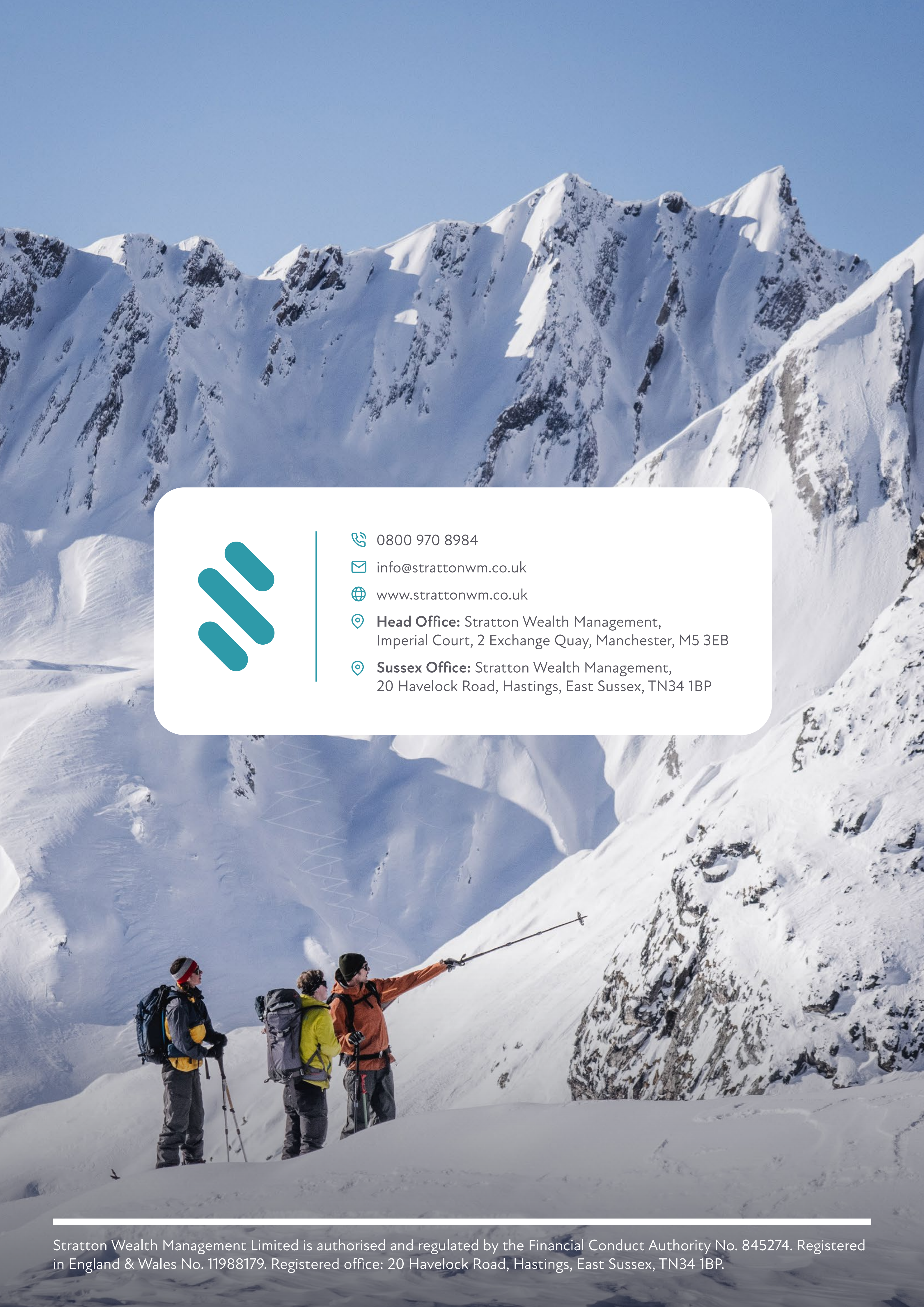
We provide a free initial meeting, so get in touch to find out more about how we can help you achieve your goals.

Email **info@strattonwm.co.uk**
or call **0800 970 8984** if you have any questions or would like to arrange a free initial consultation.

Client testimonial:

"Darius has been our adviser for a number of years, and when he told us he was starting his own firm, we had no hesitation in moving with him. We had a number of areas that we needed help with, including the complexities around an employee share scheme, investments for us and our new child, in addition to retirement planning. Darius has continually provided us with a first-rate level of service and we would highly recommend Stratton."

Eamon and Holly O'Hara (Clients of Darius since 2017)



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