The Business Owner's Guide to Financial Planning

SUCCESSION WEALTH

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Welcome to Succession Wealth

Plan for the future, plan for success.

Succession Wealth is a national financial advice firm, which delivers independent advice to clients throughout the UK.

When you choose to work with us, our Wealth Planners will provide an exceptional personal service tailored to your unique financial needs and aspirations.

We consider supporting you on your wealth journey to be a privilege. The relationships we build last longer than a lifetime, and we are proud to advise across generations.

The Business Owner's Guide to Financial Planning

As a business owner you will work tirelessly to make your company a success.

However, the focus on running your business successfully can sometimes mean that managing and protecting your finances gets pushed down the agenda or forgotten altogether, causing you to make decisions, either intentionally or by omission, that you later regret.

Working with a trusted and experienced financial professional, someone who understands your unique priorities, can help you to design a strategy to build, protect and preserve your wealth, whilst also ensuring that you do not miss opportunities to reduce your tax burden or the burden on your time.

This will allow you to focus on what you do best – running your business.

In this guide, you will find useful information about:

- Making the most of the money in your business
- Protecting your business from risk
- Securing the retirement you want
- Extracting your profits tax efficiently
- Creating a bespoke personal financial plan

If you require support with your business or personal finances, our experienced team here at Succession Wealth can help.

Email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.

Making the most of the money in your business

You will probably have heard the old mantra that, in business, cash is king – but could holding too much cash be detrimental to your long-term finances?

While you will always need sufficient accessible funds to keep your business running smoothly and to cover unexpected expenses, keeping too much cash can result in the value of your savings being eroded by inflation. If the returns you are receiving in, say, a low-interest bank account are not keeping pace with the rising cost of living, then your wealth is being eroded in real terms.

Put simply, if you had saved £50,000 in a bank account receiving 1% interest a year ago, your savings will be worth £50,500 today. If inflation during that period had been 3%, the cost of goods and services would have risen from £50,000 to £51,500 – meaning your wealth would now be worth £1,000 less in real terms.

Corporate investing puts your business's excess funds to work, instead of letting them sit idle in a low-interest bank account. There are clear advantages to this approach, but it's important to weigh these benefits against the possible drawbacks.

Pros of corporate investing

Diversified revenue streams: Rather than holding all of your business's earnings as cash, investing gives you access to a range of different asset classes, such as stocks, bonds, and commodities.

Potentially higher returns: The value of money held in cash accounts may be being eroded by the effect of inflation, and investing instead could offset this.

Cons of corporate investing

Risk of financial loss: Before investing, you must first be comfortable with the idea that you may get back less than you invested, since the value of investments can go down as well as up.

Limited access to cash: All investing should be long-term, so you may not want to tie up your money this way, especially if your revenue stream is seasonal or inconsistent.

Data from Schroders shows that, over a 20-year period, holding money in cash would have seen you beat inflation 65% of the time.

However, investing that money (in this case in large-cap US stocks) would have seen you beat inflation 100% of the time.

If you are considering corporate investing, you should also think about the tax implications.

Investing your company's funds could reduce your tax bill or push you into a higher tax bracket, depending on how much you invest and how you access any profits you make.

Seeking advice from an experienced financial planner can help you make the most of your surplus cash in the most tax-efficient way.

Protecting your business against the risks it faces

Research by Vitality reveals that more than a third (37%) of UK business owners have nothing in place to protect them should they or a key member of their staff die or suffer a severe illness.

That is despite Legal & General research that shows more than 1 in 4 (26%) small businesses in the UK would have to immediately close if a key person died or became critically ill.

Business insurance can provide a valuable buffer against unexpected events. Yet while you likely already have some sort of personal protection in place, you may not be aware of the types of dedicated cover available for businesses and entrepreneurs.

4 risks your business might face and what to do about them

Losing a vital member of your team

You may have an important salesperson, someone with unique technical experience, or a skilled craftsperson who plays a key role in your business.

Losing this vital member of staff through death or illness could lead to loss of revenue, mounting corporate debts, and the need to find and hire a replacement.

So, what would you do in this situation? Could your business continue if you lost this important colleague?

If not, **key person cover** can provide valuable financial support while you invest in training or hire a replacement.

The death of a co-director

Do you have provision in place if one of your directors/shareholders were to pass away?

If not, a deceased partner's shares could pass to their estate on death, meaning their family members end up with a controlling stake in a company they have no interest in.

With the right protection you can buy back the deceased person's shares – providing their loved ones with the value of their holding – and retain control of your business.

Shareholder protection provides a lump sum to enable remaining shareholders to buy out the stake, sidestepping this issue.

Unpaid business debts

If your business has unpaid debts, they could pose a problem for surviving co-directors or family members if one of the partners or co-directors were to pass away.

Loan protection provides a lump sum that can be used to pay off any debts, which could prevent your loved ones from having to use a portion of your estate to repay outstanding debts.

Loss of an employee

As a business owner, you may be keen to provide a suite of valuable benefits to attract and retain great talent.

Offering comprehensive financial protection to your employees is one such perk.

Relevant life cover pays a lump sum to the employee's surviving family if they were to pass away while in your employment.

Since you own the policy and pay the premiums, which are usually considered an allowable business expense, this approach offers tax-saving benefits too.

Of course, if you have a spouse or partner, children or grandchildren, a mortgage or other debts then you may also have personal protection needs.

- Could you afford to keep paying your regular commitments if you were unable to work for an extended period?
- Would your loved ones be able to remain in your home and maintain their lifestyle if you passed away?
- Could you remain on track for the retirement you desire if you were ill or in an accident and your earnings fell?

Protection is the scaffolding that holds your whole financial plan together. The key is knowing which type or combination of cover is right for your circumstances.

Securing the retirement you want

Many business owners believe that "their business is their pension".

However, a lot can happen before you decide to sell up and retire. The value of your company could decline depending on market conditions, or it could be harder to find a buyer than you expect. Consequently, you may get less from your business than you need to fund your dream retirement.

Making personal pension provision means you have a steady income in retirement, whatever happens to your business.

Even if your exit and subsequent retirement are still years away, as a diligent business owner you probably recognise the importance of paying into a pension.

But did you know that making employer or company pension contributions, instead of just personal ones, has some significant benefits?

5 valuable benefits of making pension contributions through your business

1. HMRC usually treats company or employer pension contributions as an allowable business expense. This could save you up to 25% in Corporation Tax.

2. You pay no Income Tax or Dividend Tax on employer or company contributions, unlike additional salary or dividends.

3. You benefit from tax relief on your pension contributions, paid at your marginal rate. So, a £1,000 pension contribution only "costs" you £800 if you are a basic-rate taxpayer, £600 if you are a higher-rate taxpayer, and £550 if you're an additional-rate taxpayer.

4. Employers don't usually pay National Insurance (NI) on pension contributions. The NI rate for 2024/25 is 13.8%, so by contributing directly into your pension rather than paying it as salary, you currently save up to 13.8% (this figure will rise to 15% in April 2025).

5. Your pension has the potential to grow in a tax-efficient environment.

In total, your company can save up to 38.8% (rising to 40% in April 2025) by paying money directly into your pension rather than paying money in the form of a salary.

However, there are some downsides.

Firstly, any pension contributions you make typically can't be accessed until age 55 (rising to age 57 in 2028). So, this approach may not be suitable if you need access to the funds before this age.

Additionally, making company pension contributions can come with a greater level of complexity. A financial planner can help you navigate these challenges, which include:

- Staying within the Annual Allowance (£60,000 in the current tax year)
- Correctly "carrying forward" any unused allowances from previous years
- Navigating the Tapered Annual Allowance if you are a higher earner
- Ensuring your contributions don't exceed your company's income for the year.

Relying on an exit from your business to fund your retirement can be fraught with risk. Factors such as changing market conditions and the difficulty in finding a buyer may mean you don't receive the value you need to fund your retirement. You could also end up working for many more years if it takes time to find the right buyer.

Making personal pension provision can help you to retire on your own terms.

Making the most of specialist pension schemes

As you've read, when it comes to pensions, making employer contributions rather than personal ones can offer advantages for entrepreneurs. While you are looking at your retirement planning, you will also need to consider the type of pension you use. Options include:

Self-Invested Personal Pension (SIPP)

A SIPP is a personal pension that can be set up with an insurance company or specialist SIPP operator.

Here, you join an already established pension scheme, but your assets are ringfenced from other members of the scheme.

The SIPP provider will typically be responsible for the day-to-day administration of the SIPP.

Many SIPPs let you invest in a wide range of assets, including commercial property.

So, if you own your business premises, there can be tax advantages to holding it in a SIPP.

For example, the rental income would be paid into your SIPP, further boosting your retirement fund.

Small Self-Administered Scheme (SSAS)

A SSAS is a small group pension scheme, limited to 11 members.

This makes a SASS particularly well suited to family-run businesses and startups.

Through a small group scheme, you'll enjoy all the same tax efficiencies as other pensions, and potentially save on the higher annual management and administration fees of traditional providers.

As with a SIPP, you can also access a wide range of investment options, including commercial property.

You can borrow up to 50% of the scheme's value as a loan for your business.

However, SSAS pensions must be administered by trustees, typically the members themselves, and responsibility for managing the scheme rests squarely on their shoulders.

So, if you wanted to set up a SSAS, all legal and administrative duties would fall to you, and you'd also be responsible for ensuring compliance with pension laws.

Specialist pensions can offer benefits to business owners.

For example, a SASS can support multi-generational wealth. By including family members in the scheme, it can be easier to transfer assets or shares for a smoother succession. Contributions to a SSAS can also be deductible against Corporation Tax, offering immediate tax relief for the business.

By definition, specialist pension schemes can be complex, which is why working with a certified financial planners can add real value.

Extracting your profits tax-efficiently

When it comes to your personal income, why pay more tax than you need to?

Finding tax efficiencies is the cornerstone of any good financial plan. As a business owner, this involves working out the most suitable and tax-efficient way to extract profits from your business.

If you aren't certain that you know the most tax-efficient ways to draw income from their company it may be time to consider reaching out to a professional financial planner for support.

Here's an overview of the three main options you have for extracting profits from your business, and how they compare.

Salary

Since salary payments are classed as an allowable expense, they help to reduce your business's Corporation Tax bill.

However, any salary you take will be subject to both Income Tax and National Insurance contributions, meaning you'll pay Income Tax and NI on these earnings.

Dividends

Dividends have a tax-free £500 allowance and are totally exempt from National Insurance.

Careful calculation is required, though, because dividends are paid from post-tax profits, so you must first account for Corporation Tax before distributing them.

However, Dividend Tax rates are lower than Income Tax rates, so you could pay less tax than if you took a salary.

Pension contributions

As explained elsewhere in this guide, contributing to a pension is extremely tax-efficient and helps to reduce Corporation Tax and NI. You also benefit from tax relief on your contributions.

Yet since funds are locked away until at least age 55 (rising to age 57 in 2028), it may not be an appropriate way to access your business profits in the short term.

Tax concerns are common among business owners but, with the right help, you can extract your hard-earned profits in the most tax-efficient way.

Every business owner has choices to make, and the correct method of profit-extraction will be unique to you.

The best option or combination of options will depend on factors such as your:

- Age
- Need for immediate income
- Available Annual Allowance
- National Insurance contributions record
- Mortgage situation

Creating a bespoke personal financial plan

As a successful entrepreneur, it's understandable that the effort you put into growing your business might mean that you neglect your personal finances. But as we've highlighted above, you may be missing out on valuable tax allowances, savings opportunities and protection needs if you don't take some time to review your situation.

Many business owners regard their business as their pension pot, something they'll eventually sell to fund their retirement.

If this scenario doesn't play out as you expected, however, having your personal finances in order can provide a welcome safety net.

A robust financial plan can ensure that you:

- Protect your loved ones
- Grow your wealth
- Make the most of tax efficiencies
- Retire on your own terms

We can support you on your financial planning journey

If you are a business owner and would like to discuss how we can help with your business or personal financial planning needs please get in touch.

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The content was accurate at the time of writing, changes in circumstances, regulation and legislation after the time of publication may impact on the accuracy of the article.

The value of your investment(s) and the income derived from it, can go down as well as up and you may not get back the full amount you invested.

This information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change and tax implications will be based on your individual circumstances.

The Financial Conduct Authority does not regulate advice on taxation.

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 interest rates at the time you take your benefits.

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