

Wealth planning for business owners

It's important for business owners to protect their own wealth, not just their company's. Andrew Dixon, of Union Bancaire Privée (UK), explains how.

Building a business can be all-consuming, and it's easy to delay taking steps to look after your own wealth. In addition, a lot of decisions can be clouded by emotions, particularly where family is involved. A Wealth Planner can help by providing clear, impartial guidance and ensure your personal financial goals work in tandem with your business objectives.

Pension schemes for business owners

Some owners rely on the eventual sale of the business to fund their retirement. But pensions offer several benefits. For example, if you invest profits from your business into a pension scheme, you don't pay tax on them immediately.

With a Small Self-Administered Pension Scheme (SSAS), a business can potentially receive corporate tax reductions on the cost of running the scheme. It also gives members control and flexibility over what they invest in.

SSAS schemes generally have under 11 members and are set up by Company Directors. They can be open to family members, even if they don't work for the business.

How do I future-proof my business?

If you run a company with a business partner, it's wise to have plans in case one of you dies. The deceased person may drive the profits or have knowledge and experience vital to the business's continued success. Key person insurance can protect your business by paying out a lump sum if the named individual dies. Some providers also offer a lump sum payment following the diagnosis of a critical illness.

You also need to think about what happens to the ownership if your business partner dies. Shares often pass to a spouse, who may know little about the business. Life insurance is one way to ensure cash is available to buy out a surviving spouse.

When should I retire or pass on my business?

The decision to retire or pass on your business will depend on what type of business owner you are.

If you have always intended to sell your business and use the proceeds as your pension, you will probably do this in your 50s or 60s. However, you should be certain you will make enough from the sale to maintain your lifestyle in retirement.

A Wealth Planner can help you calculate how much income will be generated from the sale proceeds to support your decision.

If your family has owned a business for generations and your children expect to take the reins, the timing will often depend on when they are ready. Will they join the business at 18, go to university or work elsewhere first?

Things can become complicated if one child takes on the business and the others don't want to be involved. For example, is it fair to hand down equal shares if one child is driving the business's fortunes? You need to engage with all stakeholders and have a well thought through plan to avoid family disputes.

Conclusion

The changes to business property relief and inheritance tax announced in the Autumn 2024 Budget make succession planning more important than ever. A Wealth Planner can help you create a strategy to secure your business, protect your wealth and ultimately pass it on smoothly, so all your hard work reaps the rewards it deserves.

Contact us

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