

Andrew Carnegie (1835 – 1919)

“Men and women, not machines are the real source of profits in any business. Take away my factories, my plant, take away my railroads, my ships, my transportation, take away my money; strip me of all of these but leave me my men and women and in two or three years I will have them ALL again.”

Protecting and Maximising
the Value of your Business

Jeremy Davis

- Key Person
 - Loss of profits to the company
 - Business pays the premium
 - Tax deductible if policy term <5 years and not substantial shareholder
 - Claim subject to corporation tax
- Shareholder or Partner
 - Value of shares
 - Individual pays the premium for life policy in Trust
 - Not tax deductible
 - Claim not subject to tax
- Business Loan
 - Outstanding loan, overdraft or commercial mortgage
 - Company pays the premium
 - Not tax deductible
 - Claim not subject to tax

What sum assured?

Key Person Salary
Total Payroll

X

Gross Profit
(averaged over 2 years)

X

Recovery Period (years)
(5 years maximum)

£50,000
£2,000,000

X

£4,000,000

X

4 years = £400,000

Business property relief

- Under current legislation many shares will qualify for 100% business property relief for inheritance tax.
- If the Share Purchase Agreement constitutes a binding contract for sale this would be lost.

- Many SMEs have little or even no value without the key shareholder/director being in place
- Many owner managers have an inflated idea of the true value of their business
- The true value is what someone is willing to pay for the business and this will hinge upon how much profit a purchaser can make from it balanced by the risks involved

Valuing the business – the methods

- Asset valuation
 - A simple assets less liabilities calculation
 - Doesn't take account of future earnings
 - Best used for a stable asset rich business e.g. property or manufacturing
- Price earnings (P/E) ratio
 - Multiply the profits after tax by the appropriate P/E
 - Some market sectors have a much higher P/E ratio than others
 - Typically the PE ratio for small unquoted companies is 50% lower than for comparable quoted companies
- Discounted cash flow
 - Requires assumptions about future business conditions
 - Based on the projected cash flow forecast for the next 10-15 years plus a residual value at the end of the period
 - The value today is calculated using a discount interest rate that takes into account the risk and time value of money

- Entrepreneurs relief at 4/9ths of gain (10% effective tax rate) up to £1m
- Business Property Relief for businesses (watch out for large cash balance), unlisted and AIM companies, certain farmland and buildings
- Consider transferring shares into trust before selling them

Occupational Schemes vs GPP, SIPP

Pensions Act requirements	Occupational Scheme	GPP/SIPP
Requirement to register for HMRC online reporting system	Y	N
Operate net pay arrangement	Y	N
Statement of investment principles*	Y	N
Make returns of information to HMRC	Y	N
Member Nominated Trustee Requirement*	Y	N
Auditors statement*	Y	N
Trustee Knowledge requirements*	Y	N

*Unless exempt

- SSAS has advantage of loanback facility of up to 50% of pension fund to company, 1% above base lending rate, repaid within 5 years
- Trustee duties and HMRC reporting for SSAS
- Interesting planning opportunities using Annual Investment Allowance (£50k)
- Protected Rights can be transferred to SIPP but not SSAS
- Borrowing and commercial property purchase available in both
- Options for taking the benefits are the same

Personal contributions

- Up to the greater of £3,600 and 100% UK relevant earnings (for tax relief)
- 40% tax charge where contributions paid on behalf of the member exceed the annual allowance (currently £245,000)
- No annual allowance test where before the end of the tax year the individual has become entitled to all the benefits



- Member pays £235,000 15th December 2009
- Nominates for Pension Input Period to end on 31st December
- 1st January pays £245,000 (annual allowance 2009/2010)
- Need £480,000 pensionable earnings in tax year 2009/2010
- Can only have one Pension Input Period ending per scheme in a tax year

- Tax relief available without limit, provided meet normal rules for allowable deductions
- “Wholly and exclusively” for the purposes of trade
- If remuneration is “not excessive in relation to the individuals’ job “.. then contribution should be an allowable expense
- Relief given in accounting period in which contribution paid

Salary Sacrifice

Sacrifice £2,783 from gross pay
keep net income same
contributions increased by £744 pa*
to £3,144 from £2,400 (up 31.0%)
No extra cost to employer

*assumes employer NI saving added

	<i>Before sacrifice</i>	<i>After sacrifice</i>
<i>Gross earnings</i>	£30,000	£27,217
<i>Income tax</i>	£ 4,793	£ 4,236
<i>NI</i>	£2,699	£ 2,393
<i>Earnings less tax & NI</i>	£22,508	£20,588
<i>Net contribution</i>	£1,920	Nil
<i>Net income</i>	£20,588	£20,588
<i>Company contribution</i>	Nil	£ 3,144*

- Lifetime Annuity
- Unsecured Pension
- Alternatively Secured Pension
- Scheme Pension

Concept of normal retirement age has gone

Normal minimum pension age 55 from 6 April 2010

Pension Commencement lump sum must be paid before age 75

Unsecured pension

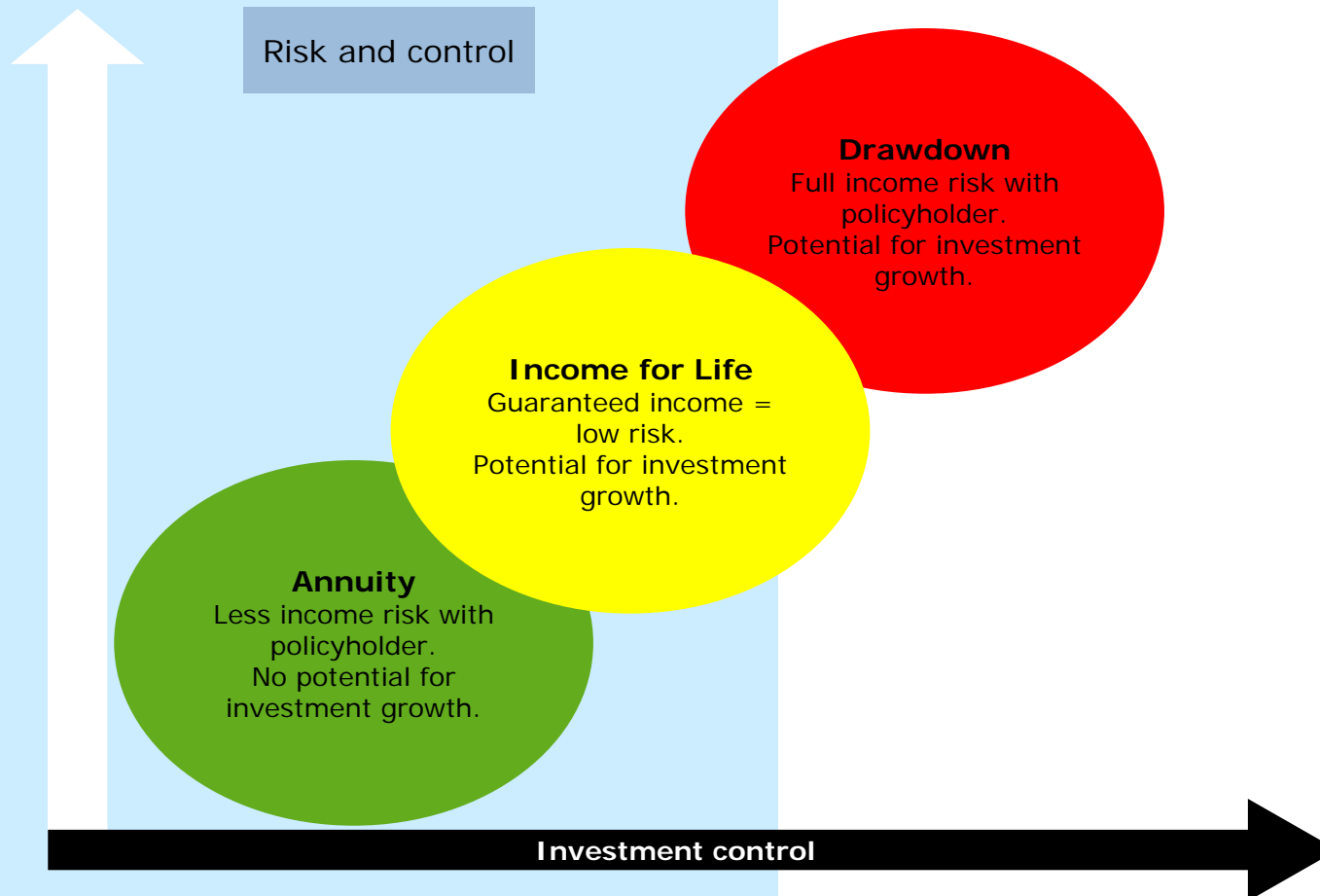
**Standard Lifetime allowance
£1.75m**

**Beware if taking nil income
because benefit crystallisation
event tests at entry & exit**

Protected rights USP now available



The third way – living benefits



Pension Options at age 75

	Conventional Annuity	ASP	Flexible Annuity	Scheme Pension
Income	100%	90% GAD	120%	110%
Age reviewed	Actual N/A	Always 75 Every year	Actual 5 years	Actual 3 years
10 yr Guarantee	Yes	No	Yes	Yes
IHT?	Yes	Yes	Yes	No
Impact on income for Spouse	Reduce?	ASP/USP	Balance fund w/o overlap	Balance fund with overlap
Left over funds	Mortality profit	Charity or 18%	Charity	18%

- Invested fund providing an income between 50% and 120% of single life annuity based on actual age
- Potentially higher income than annuity or ASP
- Reviews take place at least every 5 years
- Can include 10 year fixed period
- Fund can convert to an annuity/scheme pension at any time
- On death:
 - Single clients only 10 year fixed period death benefit
 - Discounted value included in estate and subject to IHT
 - For married clients survivor can take conventional annuity or continue with annuity from any remaining fund (without overlap)
 - Left over funds go to a charity

- Scheme Pension is a form of 'secured' income and must:
 - be paid for the life of the Member
 - at least annually
 - reviewed at least every 3 years based on actual age
 - cannot normally be reduced
- Offers the potential to reduce the fund to zero

Any Questions ?

