

JUGGLING A BUSINESS AND FAMILY



This case study revolves around business owners Peter and his wife Sandra, and their twin teenage daughters, aged 15. The couple have dedicated significant time and effort to building their business, leaving little room for financial planning. Their accountant has urged them to contact us to seek advice, as they have accumulated substantial cash reserves within the business and wish to extract it tax efficiently.

With a small mortgage nearing its completion in five years, no protection, minimal savings, and limited pension provision, their primary objectives are to establish an emergency fund, fund their children's future education, and secure their retirement by utilising available tax benefits.

Business Assets

The business has generated considerable profits, resulting in substantial cash reserves. These funds need to be effectively managed and extracted in a tax-efficient manner.

Mortgage and Debt



The couple has a small mortgage that will be fully repaid within the next five years. Clearing this debt will provide them with more financial flexibility but is a low repayment on a fixed low interest rate until the completion of the mortgage.

Protection and Pension

They lack protection policies and Peter and Sandra have made minimal contributions to their pension plans. Addressing these gaps is essential for their long-term financial security.

Business Asset Extraction and Inheritance Tax Planning

With all clients we strongly advise they ensure their wills are up-to-date and that they look at getting lasting powers of attorney in place. We refer the couple to some specialists that ensure their will is appropriate and ensures it is tax efficient particularly in regard to their business, should they pass away.



We recommend using the excess cash in the business to start paying into their pensions. This is a tax efficient way to extract money from the business whilst saving corporation tax, national insurance, and income tax. Putting the money into a pension also removes it from the couple's estate while providing them with savings for later life.

We also look at their lack of protection. With a business and family, protection is important to ensure that there isn't a financial burden on top of the loss that both the business and family will suffer. We discuss several different policies that can be taken out by the business making them tax efficient and giving valuable piece of mind.

They are also paying themselves a salary along with dividends each year. The level at which they take these has been discussed with their accountants and we work with them to ensure that the work we are both doing doesn't adversely affect what they are doing.



Establishing an emergency fund is crucial for unforeseen expenses and financial stability. We evaluate their monthly expenses to determine the ideal size of their emergency fund.

They can extract sufficient funds from the business through dividends to quickly cover this amount. They put this aside in an easy access account and plan to only use this if necessary.

Funding Children's Education



To support their children's future education, we start by discussing what Peter and Sandra expect their children to do and their concerns about funding this. Parents are often concerned about the high cost of university education and postgraduate debt. However, this debt is only repaid when the graduate reaches a certain level of income. Some people may never reach this and repaying a debt that may never become due can be a poor choice.

We recommend considering saving that money that they would spend on their children's university education and wait to see if it is worth repaying it later. It may work out better to give them this money as a deposit for their first house and letting the child repay their student debt. There are many ways this can be done, either directly in the child's name, through accounts in your name, or via a trust.

In this case we recommend a trust into which the parents pay a regular contribution. They act as trustees so that they can continue to have control over what happens with the money. This also provides them with some planning for inheritance tax by helping to get those regular payments out of their estate and available for the children's future whether that's education or something else.



We also discuss the idea of an undergraduate mortgage. This allows you and your child to borrow money to buy a house. This is normally done as "Joint Buyer Sole Proprietor". In other words, you both borrow but they own the house. This can be a compromise as their accommodation costs could be covered by renting other rooms to friends. Consideration needs to be given to how this will affect their first-time buyer status for other products and tax allowances.

Retirement Planning

As mentioned before, we recommend that the couple extract some money from their business by making employer pension contributions. They can use something called carry forward to make quite large contributions. We provide them with cashflow analysis that helps them to understand what this saving might provide them in the future. We always explain that this is only a guide as past performance is not a guarantee of future performance.

Implementation and Review

This is a lot of financial planning to take on in one go having never done any planning before. We therefore look at the priorities for the couple and make sure these are taken care of first. We then go through all the recommendations we make over several months to ensure that they understand what we are doing and that we don't take up too much of their time or head space in one go.

Conclusion

This case study emphasises the importance of proactive financial planning for business owners. By extracting business assets tax efficiently, building an emergency fund, ensuring their family and business are protected, funding their children's education, and maximising pension contributions, the family can pave the way for an enjoyable life and financially stable future with all the peace of mind that this provides.