

Destiny's child

A successful business couple have been blessed by an addition to their family but how can they make sure his financial future is secure? We asked two experienced planners to suggest solutions.

Case Study: Planning for baby



Case: Peter, 37, and Emily, 33, have just had their first child, Sebastian, who is now 3 months old. The couple are successful business owners and want to make sure they give Sebastian the best chance in life as both of them came from modest backgrounds. They want to utilise the Child Trust Fund rules for Sebastian and to start a Stakeholder pension for him. They've built a highly successful mobile phone business aimed a corporate clients. It has grown rapidly over the past 12 years. The business, based in the north west now employs 35 people and has a turnover of £8.2m. Last year it made a gross profit of £3.6m. They own 90 per cent of the company and recently were offered £24m for the business but rejected the offer. Peter is managing director and Emily is marketing director. Peter receives £260,000 a year in dividends and a salary of £40,000 and Emily receives a salary of £65,000. Emily plans to go part-time after her maternity leave and Peter would like to retire at 50. They have a home worth £350,000 but only £40,000 in savings. The couple have a joint life policy for £150,000 but know this is probably not enough. They are interested in saving for Sebastian and also making sure they have sufficient income protection and life insurance in the event of a disaster. They also want advice on inheritance tax mitigation. Pictures posed by models



Stephen Willis CFP

ACIB CFP – Managing Director,
Piercefield Asset Management

Peter and Emily have a successful and highly profitable business. Their decision not to sell the business, which would undoubtedly have provided the family with lifelong financial independence, and with aspirations of their children one day inheriting the company, indicates a long term vision and increasing wealth.

They regard their company as their “real savings pot” therefore some planning focus is required here to ensure that appropriate safeguards exist at corporate level to protect this source of revenue for them and their children in the event of catastrophe. This may lessen the need for Peter and Emily to consider personal protection measures.

They should seek advice on a shareholder agreement from a corporate lawyer, if not already in place, to ensure proper management and control of the company in certain events, such as:

- Compulsory transfers of shares (for example, on death)
- Prohibited transfers (for example, to a third party purchaser – especially important with regard to the unrelated shareholder within the business)

● Division of shares. It appears that Emily currently has no shares in the company. As her salary will be less when she returns to work, by holding shares she can then receive dividend income thus making savings on personal tax and National Insurance. They could consider splitting the shares into different classes if Peter has concerns over control.

If Peter is regarded as the key person in the business, what would be the consequences of his death or earlier critical illness on the business? Has the company got a management team in place to take over the running of the business or will they need to recruit a replacement if Emily does not wish to take on Peter’s role? They could consider Keyman assurance on Peter, which will give the company additional revenue to headhunt a suitable replacement without calling upon existing resources. Providing the company maintains profitability a dividend policy can continue to be paid, thus maintaining financial security for the family.

A joint meeting with the corporate accountant would help to clarify the business needs and objectives, which could then be considered alongside personal objectives, in particular Peter wanting to retire at age 50.

Peter and Emily will be no strangers to preparing and working to cashflows in their business, so based upon their personal goals, cashflow forecasting will help quantify their personal financial needs in the event of certain scenarios or catastrophes.

Wealth extraction from the company through pension funding and placing excess salary/dividends into personal/childrens investments, will create other potential sources of cash inflows, should the business under-perform and its value decline in the future. They may need to rely upon personal investments when

Peter retires at age 50 and before potential pension income starts at age 55.

The company can afford to make large pension contributions for both of them. For Peter, a company contribution in excess of his earnings under the ‘wholly and exclusively’ rule should be investigated if the current dividend policy is maintained.

If the company owns the premises it trades from they could consider a self administered scheme to buy them. If not already in existence Peter and Emily should investigate providing employee benefits, including group death in service cover. Group cover could be extended to income protection and private medical insurance.

Assuming they have simple wills (each to each other) they now benefit from a double nil rate allowance. Providing the business qualifies for full Business Property Relief (BPR) then with their current estate value below £600,000 they have no IHT implications. We would advocate that the couple’s existing life assurance policy is written in trust.

Their desire to start saving for Sebastian is commendable and both the Child Trust Fund (CTF) and Stakeholder have merits in terms of tax efficiency and payment flexibility. However, in the case of CTF would they be comfortable with Sebastian having control of the funds at age 18? If not they should explore alternative forms of saving using a suitable trust. The most appropriate is best decided with a specialist, who can also advise on any changes to their wills and, in the absence of an Enduring Power of Attorney, advise and establish Lasting Powers of Attorney. Other considerations should include looking for a way to realise the value of the shares prior to the proposed change in the Capital Gains Tax rate from 10 per cent to 18 per cent and saving for school fees.

Key Points:

1 Not selling the business straightaway indicates long-term vision.

2 A joint meeting with the corporate accountant would help clarify needs and objectives.

3 Wealth extraction from the company is an important consideration.