



# Financial Planning for Businesses

And for people in Business



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# Introduction

*If you are a business owner or in business for yourself, in whatever fashion, we would like to introduce to you an **idea**: that your business could gain significant benefit from a proven way to organise your finances (and in this context, those of your Business).*

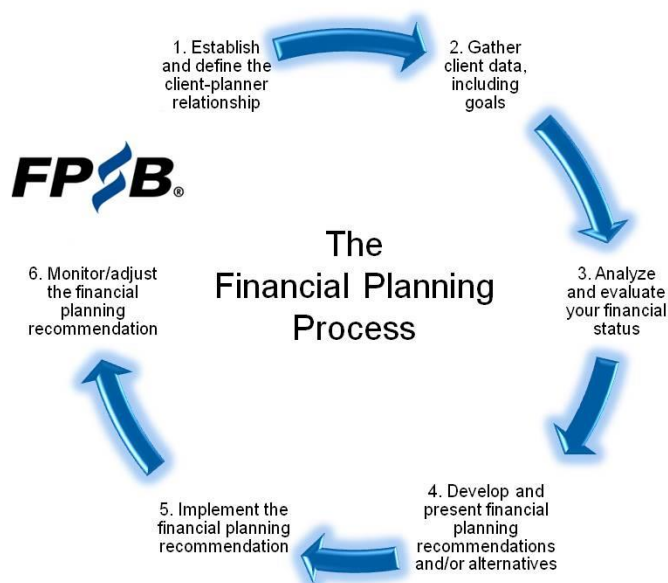
The method of managing your finances, known as Financial Planning, has traditionally been considered as an *individual* practice. One that works for individuals and their families.

However, as we will explain in this guide, there are strong reasons – and by extension therefore major benefits - for businesses (and for business owners/managers) to use the Financial Planning approach.

The various attributes which make Financial Planning such a strong basis for good financial management are equally applicable to businesses and their owners, as they are to individuals and their families. It is just that this connection has not been made before – we wish to correct this.

## What exactly is “Financial Planning”?

Firstly, it is worth pointing out that it is an *internationally* proven way for a financial planner to operate a client relationship. Only Certified Financial Planners (CFP<sup>CM</sup>) - those that have passed rigorous assessments and achieved the required qualification - are able to use the CFP<sup>CM</sup> title. This professional status is globally recognised, with Financial Planners in many countries operating to the same methods and standards. The methodology that is taught is known as the *six step process* and is shown in more detail in the diagram below:



# What exactly is “Financial Planning”?

The process is built around a detailed and broad understanding of an individual’s *overall* requirements, planning through their *various life stages* and getting everything into *one cohesive plan*.

The real key though is that its foundations are constructed on more than just the process; there are some other central factors including:

- True Financial Planning has a major emphasis on the strength of the *working relationship* between the Financial Planner and their client; this relationship must be one of *absolute trust*.
- There is a broadening of the normal financial management methods (that financial advisers might use, for example) to include a proper understanding of how the individual’s finances *relate to their lifestyle requirements*.
- There is a considerable focus during the process on *goals and outcomes*; in relating the plan to clearly stated goals or objectives.
- Individual financial plans have high regard for *wider family needs* and requirements.
- Financial Planning will often encompass *cash flow forecasts*, long term income and expenditure analyses to see how any implemented plan will work into the longer term. This often predicts *how much money an individual will need for the rest of their life*.
- There is a *holistic nature* to Financial Planning, in other words the plan has to be all encompassing – managing to cater for a wide range of needs and not just financial ones.
- The review aspect, whereby *detailed reviews* take place on a *regular basis*, are critical. The plan has to be constantly updated and adapted.

Putting all these factors together and working everything through the six step process is the methodology of Financial Planning. Millions of people worldwide work with this method and the results are impressive.

# The Business World in the UK today

The shape of business is changing and has been for a few years; more and more people are now in business for themselves. Since 2010 there are now over 1 million more self-employed people; in all around 2 million new businesses have been formed during this period.

The profile of people starting and running businesses has changed, for example there has been a big rise in the number of over 50s going into business. More women than ever before run their own businesses (increasing by 2% a year in recent years – source: *House of Commons Briefing Paper, 28<sup>th</sup> May 2015*).

Slowly, over the past few decades, the tax rules have changed. Leading to a situation where there are some favourable tax positions for the self-employed and for the business owner, if they get their tax structures right.

The retirement picture has also altered, significantly so. Individuals are now living longer (the average age at death has gone up by nearly 5 years over the past 25 years and the nature of the retirement period and years is different. Put simply – retirement requires a far greater sum than it ever did.

People who go into business under their own steam will typically see their business as part of their retirement plan; the success of their business will have a direct knock-on impact to the quality of their retirement.



# Why Businesses and People in Business will benefit from adopting financial planning practices

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It is clear that a business and its owner's finances are entwined. They are not separate things. One relies on the other.

The core principles of financial planning; such as a having a strong relationship with a suitably qualified Financial Planner, working to a structured plan, treating everything on a holistic basis (i.e. what you do in one area may well affect another and vice versa), using targeted goals and outcomes as the basis for the plan and supporting this with regular reviews and updates – are all easily adopted to work for a business.

If we consider some of the most important business requirements as examples, we can start to show how financial planning can help:

- A business will probably rely on its owner(s) for its revenue and profits; the fortunes of the business will be correlated to its owner(s) well-being. Likewise the owner's family is likely to be reliant on the business 'by association'. If the business owner falls ill or dies it could have extremely detrimental effects on the business and/or on the family. It is common for businesses to be exposed by this. A Financial Planning approach would not allow this to occur; suitable protection plans would be put in place to protect the business, the owner and the owner's family. Far too many businesses fail to properly plan and protect.
- Tax affairs for people and for the business are going to overlap, different structures have different tax implications. The decision whether to operate as a sole trader or as a limited company (or if possible as a partnership and/or a limited liability partnership) are crucial ones which could have dramatic impact on taxes paid.
- The balance between short term considerations (i.e. how to limit annual taxes such as income tax) against long term goals (i.e. how to maximise a pay out on exit) can be delicate and tricky.
- Exit planning and/or succession planning is of paramount importance to a business owner looking to secure their long terms goals.

None of the requirements above are isolated. As previously indicated each area of planning must be considered as a whole; one of the common shortfalls of other methods of financial management is where the various aspects are dealt with separately. This can cause a breakdown in the planning process or, more likely, it will not work anywhere near as efficiently or effectively as a Financial Planning approach.

Each of the business requirements shown as examples above can be effectively tackled by taking a financial planning approach.

# Tax Planning

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If we look at just one to illustrate further: tax planning. Many businesses (and/or their owners) either do not undertake major tax reviews or they leave it to their accountant.

Common questions such as, how do I minimise my tax bill this year or how much should I take as salary versus how much should I pay into my pension, become isolated ones. They are considered on their short term merits, not in the context of the wider plan, not in the context of how they impact the long term goals, not in the context of how they impact the cash flow forecast.

If your approach is to minimise your tax bill in the current year (and therefore you reduce your profit or income) – but then you need to raise finance in 2/3 years to supplement your medium term objectives, have you brewed up a problem? Or if you want to maximise a sale value on exit – how does this stack up against restricting profits (to save tax) in the shorter term?

Also how does your business tax planning, interact with your personal tax planning requirements? Is your business structured in a way that will allow you to pass the business onto the next generation 'tax free'?

Simple things get missed when financial affairs are considered in isolation; for example do you have a life assurance policy which you pay from your personal account to provide protection for your family on your death? And a business which you own, with a business account? If that is the case (and it is for thousands of people in business) then you will probably be paying completely unnecessary tax. As you need to earn income to have the money available to pay for your personal life assurance cover. Yet you could possibly pay for this cover directly *out* of the business, saving the need to pay yourself, probably saving tax.

These ideas and thoughts about tax are just **tax** considerations. A business will have considerations and decisions to be made about all sorts of requirements, some business, some personal, some financial and some life style.

Financial Planning is a way of embracing **all** these considerations and creating one overall plan which balances them out against one another.



## Summary

There is a school of thought which suggests the most important financial decision taken by business owners are around **who they work with**. As suggested earlier in this guide, a cornerstone, arguably *the* cornerstone, of financial planning is the relationship between the Financial Planner and their client.

This is a way of working which has developed strongly in the past few years, but it has tended to work at an individual level for and with individuals.

Yet with so many individuals in the UK now operating their own businesses (often into their later years) the value of this relationship and the adoption of financial planning principles and practices seem to make perfect sense.

The requirements (and decisions) within the business can all be tackled successfully by these principles.

Individual's financial planning has been revolutionised by taking this approach; we believe this can be now be, and should be, extended to those of you running a business.





## About Penguin Wealth

We are a Cardiff-based Financial Planning firm formed in 2010 by a group of Financial Planners who share the same vision and love for what we do. Our processes, support team and the accreditation we have achieved all reflect our principles and prove that we are best placed to help you live the life you deserve with peace of mind.

## Our Mission Statement

Helping People Live their Best Lives, by Making Smarter Financial Decisions.

## Core Values

- At Penguin we Commit to our Words, Actions and Results
- Clients' Needs 1st – Always
- Communication is key
- Have Penguin Positivity

Providing the highest standard of advice is at the heart of what we do, and we are always extremely excited to see what we can help you to achieve in the future!

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