Your Business Financial Strategies

sanders geeson

Chartered Accountants

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This guide is designed to help you prepare and implement financial strategies for attaining your business goals, in harmony with your personal financial objectives.

Whatever your business goals – to start a new business, to grow an existing one, to change the direction of a mature business, or to leave an existing business for a new venture or to enjoy a secure retirement – you will find this guide helpful in developing the appropriate financial strategies.

Business financial planning means:

1. **Setting specific short-term, medium-term, and long-term financial goals**
2. **Making a plan to achieve these goals**
3. **Implementing the plan and modifying it from time to time to take account of changes in circumstances**

Sanders Geeson can assist you throughout all these stages. Please call us on 01924 254802 to discuss any questions you may have about the suggestions in this guide or any other aspect of your business or personal financial affairs.

Sanders Geeson
Raines Business Centre, Raines House
Denby Dale Road, Wakefield WF1 1HR

Building 3, City West One Office Park
Gelderd Road, Leeds, LS12 6LX

Tel: 01924 254802
Email: admin@sandersgeeson.co.uk
Website: www.sandersgeeson.co.uk

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Smart goals & plans

In this guide we suggest a number of areas where you might need to consider planning for the future. The key to successful business planning is to set SMART business goals and make a SMART business plan for achieving them:

S — **SPECIFIC** – you first need to spend some time deciding what your specific business goals are.

M — **MEASURABLE** – you must be able to calculate (or at least estimate) the funds you will need to achieve each of your business goals.

A — **ACHIEVABLE** – you should set goals that you can realistically achieve.

R — **REALISTIC** – your plans need to face and accept reality as well as be focused on helping you meet specific needs.

T — **TIME BASED** – you should establish a clear time scale for achieving your goals.

Through this guide and our advice Sanders Geeson can help you:

- Establish your business objectives in harmony with your personal financial objectives
- Quantify and prioritise your objectives
- Set achievable and realistic goals
- Decide on a timescale in which to achieve them

Before you begin

If you are not careful, it is easy for your personal financial goals and your business goals to conflict.

For example, your personal financial plans might include maximising the income stream from your business so that you can make the largest possible investment in pension plans and/or other savings schemes, but one of your business goals might be to re-invest as much profit as possible in the development of new products or services, new premises, new technology, research, or expansion through planned growth or acquisition.

To avoid such conflicts, it is a good idea when developing your business plan to begin by drawing up a list of your personal financial objectives. Then as you begin to formulate your business goals, you can weigh them against your personal goals and make appropriate adjustments to ensure that you have a coherent overall strategy.

A word about tax

Many of the decisions you make about the future of your business will have consequences in terms of tax liabilities or tax reliefs, either now or at some time in the future.

Although no business decision should be made solely on the strength of tax considerations, you will need to take account of the role tax will play in implementing your strategies.

This is an area in which Sanders Geeson and their Associates have considerable expertise. Just as you will need to monitor and update your plans to take account of changing circumstances, so we can help you keep up-to-date with changes in tax legislation and adjust your business plan accordingly.

A lifetime of business financial planning

Every business has its own life cycle, and tax and financial planning is important at every stage in that cycle.

Whether your business is new, expanding, or mature, whether you are just starting your first business or approaching retirement, it is important that you make well-informed decisions to ensure that you are following the best strategies for achieving your goals.

As you read this guide we hope you will find new ideas and helpful guidelines for setting your business goals and improving your business financial strategies.

Starting with a dream

Every new business starts with a dream – a vision in the mind of the entrepreneur. But vision is not enough – you also need to make realistic plans. Making the right decisions before your business opens its doors can mean the difference between success and failure.

Some important questions to ask at this stage are:

What products or services am I going to sell and to whom?

It is especially important to be clear about why customers should choose your products or services over those of a competitor.

What is the best structure for my business?

You should consider the pros and cons of trading as a sole trader/practitioner, partnership, or limited company. You might also consider whether you're in a market where franchising is an option.

Do I have a suitable business plan?

If you need to raise capital a business plan will be vital to support an overdraft or loan application. In any event it will be essential for your financial planning in the first months and years of your business. A business plan must include projections of income and outgoings, as well as a clear picture of how and why your business will succeed.

Have I set up adequate reporting systems and procedures?

These are essential because they enable you to monitor, control, and evaluate the performance of your business. You should consider which of these procedures you can take on yourself and which you should outsource.

Have I given consideration to my pension arrangements?

It is never too early to start planning for retirement. Sooner, rather than later you will need to decide what resources to commit to your pension planning. If you are self-employed you may wish to set up one or more pension plans. If you plan to operate your business through a limited company you could consider the advantages of setting up a company pension scheme.

Who should own my business?

You might think the obvious answer is, ‘Me,’ but using your pension scheme or a family trust to subscribe for shares could be very helpful for your long-term exit and succession strategy. You may also consider share incentives to attract and retain staff.

The early years

Many young and growing businesses fail during the early years because the owner is too close to the action – so involved in the day-to-day running of the business that he or she forgets to step back once in a while to see how the business is doing and whether or not the business plan needs updating.

It is vital at every stage of a business to set aside time to review its progress, but it is especially important in the early years.

Using data from your financial and management reporting systems, you should monitor actual performance against projected performance and, where necessary, adjust your business plan accordingly.

Time for expansion

Once your business is established and sales are at a satisfactory level it is time to review your business plan and decide how your business should move forward.

If you want to expand both the top and bottom lines of your business you might need to review the entire plan. Should you go for 'more of the same' or should you re-evaluate the whole purpose and direction of your business? How should the new direction complement the old?

For example, should you take this opportunity to put your business onto the internet and make use of the new technologies to compete in new, global markets? And if so, how will your new e-commerce activities tie in with your more conventional trading activities?

Planning your exit

At some point you will want to leave your business – whether to move into a new venture, or to retire. Either way, you need to plan your exit well in advance to ensure that you optimise your position.

You will also need to give consideration to what will happen to your business when you leave. Will it pass to other members of your family, will your co-owners or partners continue the business, or will you want to sell it to a third party?
Whatever you decide, you will need to make careful preparations to ensure the transition goes smoothly.

In Retirement

After forty or more years at work it is time to take a well-earned rest, but you still need to keep one eye on financial planning if you want to enjoy a long and comfortable retirement. This may also be the time to begin putting some money aside for your children or grandchildren.

As you can see, just as financial planning is important at every stage in your life, so it is in the life of your business.

Sanders Geeson and their Associates **have considerable experience in advising business owners at all stages of the business and personal lifecycle and would welcome the opportunity to help you develop the next stages of your business plan.**

Putting your business financial plan together

Whatever stage you are at in your business cycle you need to:

- **Develop a SMART business plan**
- **Implement the plan**
- **Regularly monitor your business performance against the projections in the plan**
- **Review and adjust your plan when appropriate**

Remember, you do not need to do all of this on your own. We will be pleased to help at any stage.

To develop a SMART plan it is a good idea to start by writing down exactly what your business does, or will do, and then specifying what it is that makes (or will make) your business a success.

Does it have unique features, added value, or a geographical monopoly? Why do, or should, customers choose your business? What would happen if these advantages were lost?

There can be many features that make your business unique, and your plan should reflect how each of these 'Unique Selling Propositions' (USPs) will contribute to your business success.

With these in mind, draw up a list of business goals and compare it with the list of personal financial objectives you drew up earlier to make sure there are no conflicts.

Once you have a list of specific business goals that harmonise with your personal goals, ask yourself the following questions:

- **What must I do to achieve these goals?**
- **What investment of time, money, and other resources is required to achieve each goal?**
- **How long will it take to achieve each goal?**

The checklists at the back of this guide are designed to help you determine your business financial goals. Some of the points mentioned in the list have already been covered; the remainder will be dealt with in the following chapters.

Planning for retirement

SMART business planning involves not only planning how you will start up and run your business, but also how you will leave your business when the time comes and enjoy a secure and comfortable retirement.

There are two important areas that require consideration:

1. **Planning your retirement income**
2. **Planning your exit from your business**

These are obviously interrelated, and the sooner you begin to plan for them the better the result you will achieve.

Planning your retirement income

For most people, the state retirement pension does not, and will not, provide sufficient income for a comfortable retirement. Successive Governments have made it clear that private provision for retirement is now essential.

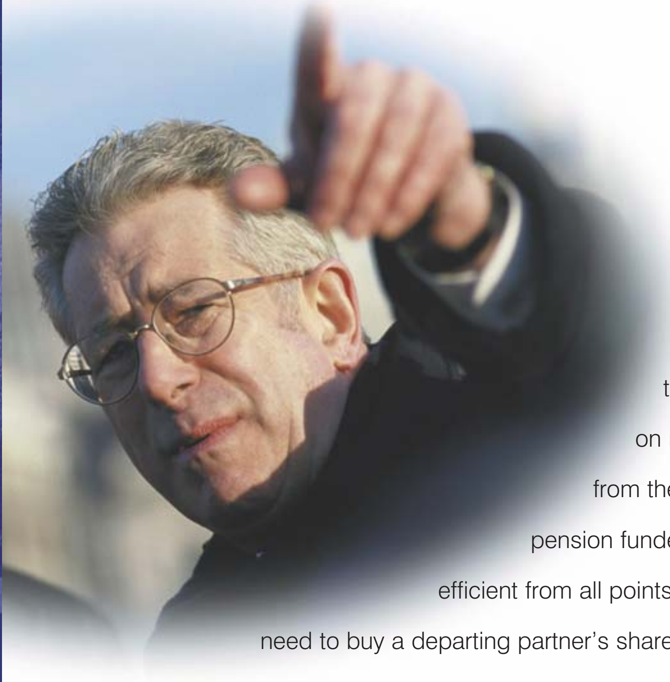
Therefore, throughout your working life – starting as early as possible – you will need to build the resources necessary to provide an adequate income in retirement. As a rough guide, to maintain your current lifestyle in retirement you will need an annual income equivalent to 60 - 80 per cent of your current income requirement. You need to plan how you will build up a fund capable of generating this level of income once the flow of income from your business comes to an end.

For many, the choice is a company pension. This is equally appropriate whether you are an employee or an owner-director – indeed, as an owner-director there are ways you can make your pension fund work for you during your working life as well as in retirement – for example by using it to buy property.

Personal investment in your company pension scheme qualifies for tax relief – there is no tax liability for you on company contributions and the company receives tax relief for the amounts it contributes. Pension funds can be a useful means to shelter growth in the value of business assets from tax on capital gains.

If you are self-employed or are not a member of a company pension scheme you can invest for your retirement through one or more personal pension plans. These offer much the same advantages as company pension schemes, often with the possible advantage of allowing investment with a number of pension providers to achieve a wider investment spread.

If you choose a personal pension policy or a 'one-person' company pension scheme there is a further possible tax advantage to be gained by using the pension fund to subscribe for shares in your company. In effect you gain tax relief on the amount subscribed and the growth in the value of the shares will (under current legislation) be free of capital gains tax.



Finally, there are partnership annuities – as close as a self-employed person gets to a company pension scheme. Subject to certain tax rules it can be arranged that, on retirement, a partner will receive an annuity from the continuing and new partners – in effect a pension funded from future profits. This can be tax efficient from all points of view, and an annuity can obviate the need to buy a departing partner's share of the business.

Although pension schemes and plans can offer both current and future tax advantages and must therefore be considered carefully in planning your retirement strategies, you should avoid 'putting all your eggs in one basket'.

At retirement, normally 25 per cent of the accumulated fund in a pension scheme or plan is available in the form of tax free cash. Alternatives are available, but in general the remainder of your fund must be used to buy an annuity – the income from which is subject to tax.

It is therefore worth considering investing in parallel to create an additional fund which, although it will not attract the same tax breaks, will be available for you to draw on at any time (before, at, or after retirement). Individual Savings Accounts (ISAs) are one option. Most income and gains arising from funds invested in ISAs are tax free, and ISAs are widely-available. Other options include bank or building society accounts, National Savings, and Stock Market or other higher risk investments.

For example, a 41-year-old man investing £5,000 net of (40 per cent) tax relief into a pension fund for 20 years could expect to have a fund worth £289,315 at retirement (5 per cent growth). Of this, he could expect to receive a tax free lump sum of £72,329, plus an annuity of between £12,000 and £15,000 less tax (about £780 to £975 per month, after tax at 22 per cent) depending upon current annuity rates. On the other hand, investing £5,000 a year into an ISA for 20 years would generate a total of £173,596 (again assuming 5 per cent growth) which could be drawn at any time.

The Risk/Return Triangle

Planning your exit from the business

For some people their business is a separate entity that will continue after they retire or leave. For others it is so closely dependent upon their personal input that it will simply come to an end when they stop working. Either way, you need a carefully planned exit strategy that will enable you to optimise your position when the time comes.

Here are some possible scenarios:

Passing on your business to your children or other members of the family

You will need to be careful in your choice of successor, especially if some of your capital will remain tied up in the company, for example in shares.

You will need to put into place the right mechanism to effect the transfer and make sure your plan is tax efficient.

It is important to consider how much control you are prepared to give up on retirement. In some cases it will not be possible to retain control once you retire, though you may still have a degree of influence.

If you are passing the business on to family members, do not overlook the fact that you can appoint them as directors and hand over the day-to-day running of the business while retaining control of the company through your shareholding.

Also you may wish to consider using trusts as a way to pass an interest in the company on to family members while continuing to exercise some control.

Selling your share in the business to your co-owners or partners

This might already have been considered and incorporated into your partnership or shareholders agreement. You will need to be able to place a value on your share in the business – or accept a return of capital plus an annuity from your

partnership. We can help by advising on agreements and also by valuing your business.

Selling the business to a third party

Again, you need to know the value of your business and how the funds released by the sale can best be invested to provide you with a comfortable retirement or used to begin a new business venture. Valuable tax reliefs are at stake here, so consult us early in your planning to avoid an unnecessary tax bill.

Public flotation or sale to a public company

This might be an option if you have a sufficiently large business, or a niche business attractive to a larger company seeking to expand its activities. A great deal of care and planning is required if you are to make the most of such an opportunity.

Selling your business to some or all of the workforce

Through company share schemes and pre-sale agreements you can reward your workforce (globally or selectively) on an ongoing basis in the form of equity – a stake in the business. One possible conclusion of widening ownership of the company in this way might be to pass control of the company to the workforce on your retirement.

Winding up the business

If the business is simply going to come to an end when you retire you need to ensure that when the time comes you collect all monies owed to you and realise the value of the business assets. After all, these are an important part of your 'retirement fund'. Again you will need to arrange this properly to minimise your tax liabilities and maximise your income in retirement.

Whatever plans you make for retirement, or for withdrawing from your current business, careful planning and the right advice are essential.

Indeed, as you can see from this guide, careful planning and professional advice are essential at every stage of your business life. The best time to start planning is now.

We would be happy to advise you further on developing SMART strategies for you and your business. Call us on 01924 254802 to discuss how we can help.

Business planning checklist

	Specific questions to focus on	YES	NO	SEEK HELP OR ADVICE
Business Structure	Is your present business structure flexible enough to respond to future changes in technology, the marketplace, or legislation?			
	Would there be financial, managerial, tax, or other advantages from changing the structure of your business?			
Management	Are you clear about your own role in the business, and do you have the skills to fulfil it?			
	Do you have the right management team to help your business grow, and do they receive appropriate training?			
	Do you regularly step back from the day-to-day running of the business to spend time on strategic planning?			
	Do you have a contingency plan in the event of your not being able to work for any reason?			
	Do you, or are you planning to, involve other members of your family in the business, and if so have you thought through all the implications for both the family and the business?			
Staff	Do you have the right people doing the right jobs?			
	Do you have an ongoing training programme to enable your staff to keep abreast of developments in technology etc?			
	Do you have suitable benefits and incentive schemes to reward and retain key staff?			
	Do you have mechanisms for involving your staff in business planning, productivity improvement, etc?			
	Do you have a contingency plan in case you lose key members of staff?			
	Do you have a procedure for keeping abreast of all the changes in employment law?			
Financial	Do you have management financial systems in place to enable you to compile, monitor, and adjust your business plans?			
	Do you have a plan for retaining or acquiring funds for growing the business?			
	Do you have the right type and the right amount of insurance cover?			
Growth	Do you have plans to invest in new machinery, technology, and people?			
	Do you have plans for expanding your business through more of the same or by moving in a new direction?			
	Have you considered the possibility of a merger or acquisition?			
Retirement	Have you optimised your pension arrangements, and do you review them regularly?			
	Do you have other arrangements to provide income in your retirement?			
Exit Strategy	Are you clear about when and how you will leave the business?			
	Do you have a plan for the eventual succession or sale of the business?			
Taxation	Are all your plans optimised for tax purposes?			
Personal Objectives	Are all your business goals in harmony with your personal financial goals?			

Smart goals

Use this page to set specific goals:

Goals	Resources needed to achieve goal	DATE BY WHICH goal is to be ACHIEVED

We provide quality advice and services in the following areas

Non-Executive Director Services
- Retainers from one day per month
- Mentoring

Consultancy
- Project management
- Change management

Healthcheck
- PAYE/NIC healthcheck
- VAT healthcheck

Accounting
- Preparation of annual accounts
- Preparation of periodic management accounts
- Providing manual and online book-keeping services
- Maintaining PAYE and VAT records and associated returns

Company Secretarial
- Preparation and filing of statutory returns
- Preparation of minutes and resolutions
- Company formation and formalities
- Company searches

Taxation Advice
- Personal tax
- Business tax
- Company tax
- Capital gains tax
- Inheritance tax
- HM Revenue and Customs enquiries
- Value Added Tax
- PAYE and National Insurance compliance
- Self Assessment guidance
- CIS

Business Planning Services
- Business start-up planning and advice
- Strategic and business planning
- Cash flow forecasting
- Financial management
- Business development and marketing
- Financial information systems
- Computer systems advice
- Retirement and Estate planning

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