Pareto
ALL MATTERS FINANCIAL

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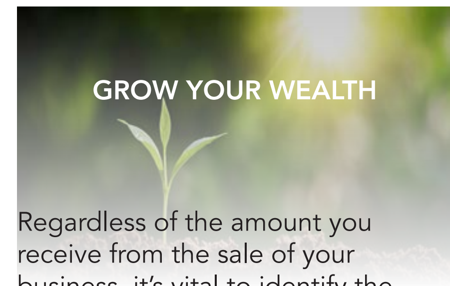
POST-SALE FINANCIAL PLANNING - THE NEXT CHAPTER

Selling your business can feel like a big weight off your mind, but you still need to work out how to use the sale proceeds to meet your objectives in the next stage of your life. For many, the transition from a demanding business environment or the intensity of a deal to a new post-deal lifestyle is harder than anticipated. It takes time to settle into a new lifestyle and it is important to think about what your and your family's future expectations might look like.



GROW YOUR WEALTH

Regardless of the amount you receive from the sale of your business, it's vital to identify the direction you wish to take your funds and how it will benefit you, your family and your estate.

Keeping the money in a bank account will likely result in slow growth. It may even decrease in value over time, as interest rates typically fall behind the currently high levels of inflation.

A financial adviser can help you consider how to invest to help meet financial objectives. A key consideration before you invest is to determine your capacity for loss and how much risk you are comfortable with. It is also important to diversify appropriately.

Some areas you could consider include:

Individual Savings Accounts (ISAs)
An ISA is a 'tax-efficient wrapper.' Types of ISA include a Cash ISA and Stocks & Shares ISA.

A Cash ISA is similar to a normal deposit account, except that you pay no tax on the interest you earn. Stock & Shares ISAs allow you to invest in equities, bonds or commercial property without paying personal tax on your proceeds. The ISA allowance for 2023/24 tax year is £20,000.

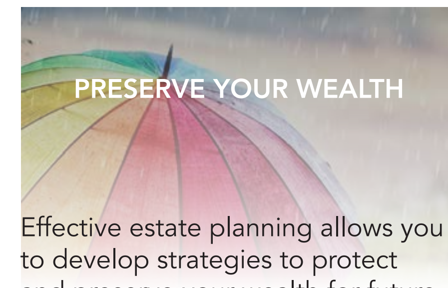
Other types of ISA are available which may be useful to consider in your planning, including Lifetime ISAs and Junior ISAs (for under 18s).

Pensions
After selling your business and ceasing employment, you may no longer have a workplace pension available to contribute to, but you can still contribute to a personal pension or a Self-Invested Personal Pension (SIPP). Personal pensions are usually provided by insurance companies, while SIPPs give you more control over your investment choices.

Your annual allowance is the most you can save in your pension pots in total in a tax year. In the 2023/24 tax year this is £60,000, the allowance is tapered for high earners. You can find out more about this at gov.uk. Also, if you have sold your business and are not working, your ability to contribute could be limited by your earned income.

Investing
Investments can generate income in the form of dividends, rental income, or interest payments. This income can provide additional cash flow and financial security, especially for those who no longer rely on active employment income.

Holding a balanced, diversified portfolio with a mix of investments can help protect it from the ups and downs of the market. Different types of investments perform well under different economic conditions. By diversifying your portfolio, you can aim to make these differences in performance work for you. It is worth noting that the value of your investments (and any income from them) can go down as well as up and it is important to consider your appetite for risk ahead of investing.



PRESERVE YOUR WEALTH

Effective estate planning allows you to develop strategies to protect and preserve your wealth for future generations. It could save a family a potential Inheritance Tax bill amounting to thousands of pounds.

Make a Will
A vital element of effective estate preservation is to make a Will. Making a Will ensures your assets are distributed in accordance with your wishes.

It is particularly important if you have a spouse or registered civil partner. Even though there is no Inheritance Tax payable between both parties, there could be tax payable if one person dies intestate without a Will. Without a Will in place, an estate falls under the laws of intestacy – and this means the estate may not be divided up in the way the deceased person wanted it to be.

Make allowable gifts

You can give cash or gifts worth up to £3,000 in total each tax year, and these will be exempt from Inheritance Tax when they die. You may carry forward any unused part of the £3,000 exemption to the following year, but must use it, or it will be lost.

Parents can give cash or gifts worth up to £5,000 when a child gets married, grandparents up to £2,500, and anyone else up to £1,000. Small gifts of up to £250 a year can also be made to as many people as you like.

Give away assets
Parents are increasingly providing children with funds to help them buy their own home. This can be done through a gift, and provided you survive for seven years after making it, the money automatically moves outside of your estate for Inheritance Tax calculations, irrespective of size.

Make use of Trusts
Assets can be put in an appropriate Trust, thereby no longer forming part of your estate. There are many types of Trust available, and they can be set up simply at little or no charge.

They usually involve parents (settlors) investing a sum of money into a Trust. The Trust has to be set up with trustees – a suggested minimum of two – whose role is to ensure that on the death of the settlors, the investment is paid out according to the settlors' wishes. In most cases, this will be to children or grandchildren.

One of the most widely used Trust is a Discretionary Trust, which can be set up in a way that the settlors (parents) still have access to income or parts of the capital.

It can seem daunting to put money away in a Trust, but it is possible that they could be unwound in the event of a family crisis and monies returned to the settlors via the beneficiaries.

Trust deeds may stipulate procedures to follow when winding up a trust. It is essential that trustees consult the trust deeds and care adhere to these procedures.

The normal expenditure out of income rule
As well as considering putting lump sums into an appropriate Trust, you can also make monthly contributions to help support your loved ones. So long as the gifts are made out of your income, form a part of your 'normal expenditure', are paid out on a regular basis and do not have any impact on your own standard of living they should be exempt from Inheritance Tax.

The simplest way to make these gifts is by setting up a regular standing order directly into the recipient's bank account. Alternatively, you might want to set up a policy, such as a life insurance or pension plan, and you could pay the regular premiums out of your surplus income.

PROTECT YOUR FAMILY

You've worked hard to build and grow your wealth; it's only natural to put in place measures to protect it. Your protection needs may have been previously taken care of by your business so you should consider reviewing the policies you had in place such as private medical insurance.

The main area of protection you should consider is Inheritance Tax liability insurance.

Inheritance Tax (IHT) liability insurance
An IHT liability insurance policy can help cover the estimated IHT bill upon an individual's death. This type of insurance is designed to provide funds to pay the tax from the proceeds of the policy, helping to preserve the assets intended for inheritance. The pay-out is typically made directly to the beneficiaries or the estate, and it is usually tax-free.

Inheritance Tax must be paid within six months of death (interest is added after this time). Because probate must be granted before any money can be released from an estate, the executor may have to borrow money or use their own funds to pay the bill.

PHILANTHROPY

Engaging in philanthropy after selling your business can be a fulfilling way to make a positive impact on society. You may wish to establish a charitable foundation to support causes that are meaningful to you or support an established charity that aligns with your values and causes of interest.

Donating to registered charities either during your lifetime or in your will can reduce your IHT liability. Charitable donations are generally exempt from IHT, and you may also benefit from income tax or capital gains tax relief.

You may also explore impact investing, which involves investing in companies or funds that aim to generate both financial returns and positive social or environmental outcomes. This approach allows you to align your investment portfolio with your philanthropic goals.

NEXT STEPS

The value of professional advice is more than just potentially increased investment returns. It is about knowing and understanding your goals and dreams and providing advice for the things you care about.

Financial advisers have in-depth knowledge of various financial products, investment strategies, tax regulations, and estate planning. Their expertise can help individuals navigate complex financial decisions and make informed choices based on your specific goals and circumstances.

Please contact us to learn more about how we can help you.

Pareto

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