IMC FINANCIAL SERVICES

PRESERVING YOUR BUSINESS ASSETS

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Essential business succession strategy

WITHOUT THE RIGHT BUSINESS SUCCESSION PLANNING STRATEGY:

- Your loved ones may not inherit your share of the business.
- Deceased family may be obliged to take over the business – even when not wished for.
- Business may decrease in value due to the lack of experience of the beneficiary.
- Business partner not able to buy deceased's shares.
- Selling the business and the earnings may become liable to Inheritance Tax.

Years of hard work and dedication have allowed your business to succeed, giving you and your family financial stability.

It is natural that you would want to ensure that your loved ones are provided for in the event of your death. So what would happen if either you or your business partner were to die?

WHO WOULD BE ENTITLED TO YOUR BUSINESS SHARE?

In the absence of a valid Will the share would be subject to the Laws of Intestacy. Meaning that whoever inherits your share may not be the person you intended too.

This could have a huge impact on the future success of the business and its value.

THINKING OF BUYING THE SHARES FROM THE DECEASED FAMILY? OR WOULD IT BE BETTER TO SELL THE BUSINESS?

If any of the parties sell their shares this would affect both partners and business as their assets increase. Also, in the future, both parties' estates could be impacted by Inheritance Tax, and because the company was still trading, it would have lost any Business Property Relief previously available. By selling the business there's a risk of losing 40% of the cash earnings because of the tax.

DO YOU THINK YOU ARE PREPARED FOR THIS SITUATION?

Most of us would think that the sufficient procedures have been done, and that all the life policies will protect and prevent such casualties. You may even have set up a Company Will and a Cross Option Agreement, which would ensure the surviving business partners' the right to buy the deceased shares of the business. The earnings of the life assurance policy could be paid to the deceased family/ beneficiaries in exchange of their inherited share of the business.

In the same way, the deceased family/beneficiaries would be able to exercise their right to sell their share of the business to the remaining business partners' in exchange for either the market value or an agree amount covered by the life assurance policy.

WHAT IS THE IMPACT OF A STANDARD CROSS OPTION AGREEMENT HAS ON SOMEONE'S ESTATE?

When a business partner dies their share will pass to their family or beneficiaries through their will, which is then considered to be part of their estate. While this share is held and the business continues trading, the assets could be released from Inheritance Tax (IHT) if they qualify for Business Property Relief (BPR).

As soon as the Cross Option is completed, BRP is no longer available on the earnings. The beneficiaries assets attributed for IHT would have increased by the funds received from the life assurance policy putting at risk

40%of the earning to IHT. This could be a significant loss, depending of the size of your business.

Also, these earnings become at risk with future remarriage claims, creditors, bankruptcy and Long Term Care costs.

For the surviving business partner, a standard Cross Option Agreement allows full ownership of the company while the business is running and whilst the BRP is still applicable. But, when they decide to sell the business this will have an impact on their personal estate, as it will be increased to include the earnings from the sale. This leaves the deceased family/beneficiaries vulnerable to IHT, creditors, bankruptcy, divorce settlements and Long Term Care costs.

HOW CAN IMC ESTATE PLANNING SERVICES HELP YOU?

At IMC Financial Services, you will have a tailored business estate planning that suits you and your business, focusing on the future success of the business and earnings.

IMC offers planning services that provides significant protection to your business, reducing the impact of Inheritance Tax and protecting your business and earnings from future sale. With IMC Wills you can ensure that each partner or director's share is left to individual Family Trusts by including written clauses in your will. Also, the suitable Life Cover will be assigned to Shareholder Trusts, which will protect your estate from being affected by the life assurance earnings.

WHY IS THIS IMPORTANT?

Because once the Cross Option has been implemented, the earnings from any Life Assurance policy replace the share held in the the deceased's Family Trust, and so do not form part of their estate. This means that the funds are now protected against risks such as

Inheritance Tax, remarriage claims, creditors, bankruptcy and Long Term Care costs, allowing still the family/beneficiaries to access the Trust assets.

HOW DOES THIS AFFECT THE SURVIVING BUSINESS PARTNER?

When it comes to the surviving business partner, he still retains the original share of the business but the deceased share is passed directly into a Shareholder Trust, from where the Life assurance earnings were originally paid. Because the surviving business partner is a Trustee of the Shareholder Trust, he is in full control of the business.

Another way of taking advantage of the Shareholder Trust is to use it as a further efficient income tax planning tool. Since half of the business is in the Shareholder Trust any dividends paid into the Trust could be distributed to beneficiaries of the Trust who may have nil or low rate income tax.

WHAT HAPPENS IF THE BUSINESS IS SOLD?

If the surviving business partner decides to sell the business, it can only be their original share of the business to be included in their estate. The remaining share belongs to the Shareholder Trust, for which he and his family are beneficiaries. This share is also protected and cannot be attributed for Inheritance Tax purposes or be at risk for future eventualities by the Long Term Care costs, divorce and bankruptcy.

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