Life \ Pensions \ Investments

You & Your Business

Business Protection
The importance of financial planning for today's business people

Helping people build better futures

Why do I need business protection?

Anyone in business today wouldn't think twice about insuring their business against loss from fire or theft. However, there are many other circumstances that can have damaging and lasting consequences for your business. Indeed, without the right kind of protection, your business, even your family's finances, could be in financial ruin.

Ask yourself the following:

> How would your business survive if one of your key employees or shareholders became seriously ill or died suddenly?

> If your business partner died what would happen to their share of the business?

> How would you feel about a shareholder's family joining your business if he died suddenly?

> If you died what would happen to your share of the business?

> Are your spouse or children in a position to take your place in the business?

> How will your family survive financially?

If any of the above questions are a cause for concern you may need business protection.

It won't happen to our company!

There is very little in life of which we can be absolutely certain, but one fact is guaranteed, we are all going to die… some day. The one unknown, thankfully, for most of us is that we have no idea when this will be. However, the odds of one partner in a 2 or 3 man business dying or becoming seriously ill before retirement are probably a lot higher than you might think.

Odds of one dying before 65			
Age	One man	Two men	Three men
40	12%	22%	32%
45	11%	21%	30%
50	10%	19%	27%
55	8%	16%	22%

* Source: CSO life tables (Ireland) 2010 - 2012

Odds of one dying or becoming seriously ill before 65			
Age	One man	Two men	Three men
40	24%	42%	55%
45	22%	39%	53%
50	20%	36%	48%
55	16%	30%	41%

* Source: CSO life tables (Ireland) 2010 - 2012. Critical Illness tables (IC94) first published by Society of Actuaries Ireland 1994.

What's the solution?

Many problems can arise for a business when a partner or key employee is out of the picture due to death or serious illness. Some of these problems could be alleviated with adequate financial planning to provide the funds to allow options and choices to be made by all parties. Arranging adequate business protection insurance is the only way to ensure that the necessary funds will end up in the right hands at the right time, and in a cost efficient manner, to help ensure the continuity and the survival of the business.

Our expertise:

Ensuring the survival of your business, either when you pass it on to your children or in the event of a partner dying, requires careful planning. Your advisor can assist you with putting together an arrangement to suit your business protection needs which will help ensure the continuing success of your business.

> **Personal shareholder protection**
This allows the shareholders of a company to provide funds for the purchase of the share of the deceased shareholder from their personal representatives with the life assurance contract affected by the shareholders personally.

> **Corporate shareholder protection**
This is an arrangement whereby the company agrees with each shareholder to buy back his shares from his personal representatives on death, with the insurance cost being borne by the company.

These arrangements ensure security for the surviving shareholders in the company, and peace of mind for the family/dependants of the deceased.

> **Keyperson insurance**
This allows a limited company to plan for the potential financial loss that it would suffer on the death or serious illness of a key employee.

> **Gift and inheritance tax planning**
This allows you to plan in advance for any tax liability which could arise on the transfer of a business, thus ensuring the business won't have to be sold off to pay the tax debts.

As well as providing advice on the above arrangements, your advisor can assist you and your business with the following services:

> Review of individual circumstances

> Draft legal documents

Pensions planning

A pension plan is now accepted by most working people in Ireland as a natural part of their financial planning. With increasing pressure on State social welfare benefits in recent years it is recognised that a private pension plan is necessary in addition to State benefits. In this way, individuals and their dependants can enjoy greater financial security.

An approved pension plan is the most tax efficient way to provide:

> A realistic income in old age,
And / or
> A level of financial security for your dependants in the event of your death.

Tax advantages

A. Personal contributions

Income tax relief is available on personal pension payments between 15% and 40% of income (depending on age), subject to an earnings cap of €115,000. For a top rate tax payer this can result in a saving of up to 40%, or up to 20% for a standard rate tax payer (currently).

Example

	Top rate tax payer	Standard rate tax payer
	40%	20%
Gross Yearly investment	€5,000	€5,000
Tax relief	€2,000	€1,000
Net Investment Cost	€3,000	€4,000

B. Company contributions

Any contributions by your company (subject to certain limits) to your pension plan are also allowable as a trading expense, thus generating a corporation tax saving. Perhaps more importantly, any such contributions invested by your company for your benefit are not treated as taxable in your hands (i.e. no benefit in kind tax).

Also, a pension plan is ring-fenced from the company's assets, and so is generally protected from the company's creditors.

C. Tax free investment returns

Another major tax advantage of investing through a pension fund is that approved pension funds generally pay no tax on any investment income or capital gains.

> Dividends are re-invested gross of tax

> Fund grows free of Dividend Withholding Tax

> Fund grows free of Capital Gains Tax obligations

Any Government levies due will be taken from your fund as required. The funds invested in may have to pay tax where they invest in property or other assets outside of Ireland if required by the domestic tax rules of the relevant country.

Warning: If you invest in this product you will not have access to your money until age 60 and/or you retire.

D. Retirement lump sum

Another tax advantage is that on retirement some of the capital accumulated in your fund can be taken out in the form of a retirement lump sum tax free. For those who are self employed (typically Schedule D Case I & II taxpayers) and directors and employees in a PRSA the retirement lump sum is up to 25% of the fund. For directors and employees in defined contribution company pensions the limit can be either 1.5 times final salary (subject to certain conditions) or 25% of the fund. The maximum tax free amount you can receive is €200,000. Retirement lump sums between €200,000 and €500,000 will be subject to standard rate income tax (20% as at January 2023). The €200,000 and €500,000 limits include all retirement lump sums you have received since 7 December 2005. You can use the rest of your pension fund in a number of different ways.

E. Pension income

The remaining fund can be taken as a pension annuity guaranteed for life. Pension income in retirement is subject to income tax and other levies on withdrawal. Or, after taking the tax free lump sum, you can continue to invest the rest of your pension in a fund that you can manage and control. You can do this using an Approved Retirement Fund.

F. ARF (Approved Retirement Fund)

After taking the maximum retirement lump sum, you can re-invest the balance of your pension fund in an Approved Retirement Fund. This is a personal investment fund that you can manage and control in your lifetime. You can withdraw income as required subject to a minimum withdrawal of 4% or 5% depending on your age. A withdrawal of 6% is required if your funds are over €2 million. You can leave your ARF to your dependents on your death.

Withdrawals from ARFs are subject to income tax and other levies. You can use an ARF to purchase an annuity at any stage.

Our expertise

Your Advisor specialises in helping businesses and their owners plan for their future. Whether it is succession planning, pension planning providing financial security for dependants, or ensuring an income in the event of disability, we can offer solutions to meet your needs.

Personal Pension Plans and PRSAs (Personal Retirement Savings Accounts)
For the self employed and those in non pensionable employment

Company Pension Plans and PRSAs
For directors and employees

Pension Term Assurance
Lump sum and / or spouse's pension if you die before you retire

Summary

For any person managing their own business, either solely or with business partners, there are important questions that need to be considered as part of normal business planning

1. When do I plan to retire?
2. What will happen to the business when I retire?
3. Where will my retirement income come from?
4. Will I be able to pass the business on to my children intact without being ravaged by tax?
5. How will my family survive financially in the event of my sudden death?
6. How would the business survive in the event of my sudden death or the death of a partner?
7. What would happen to my income in the event of a long-term absence from work due to illness?

What would you like to happen?

What plans have you made to ensure your hopes are likely to be realised?

Just as your business differs from others, so too will your business insurance requirements. Your financial adviser will be happy to look at your current situation, identify your needs and recommend the arrangement that is best for you.

Warning: The value of your investment may go down as well as up.

If your personal contributions are deducted from your bank account you can apply to your Inspector of Taxes to have your tax credits adjusted to reflect your pension contributions. If your contributions are deducted from your salary you will receive immediate income tax relief. Employer PRSA contributions and regular company pension contributions can normally be set against the employer's liability to pay corporation tax in the tax year in which the contribution was made.

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