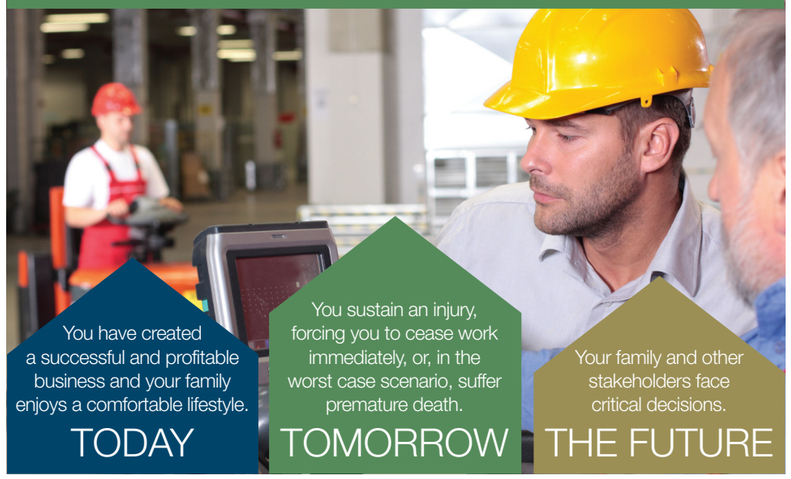
Business Protection



What are their options?

A	The next of kin becomes active in the business. But do they have the experience, skills and expertise to manage the business?
B	The business (or a share in the business) is sold to an outsider, or the next of kin retain their interest as inactive shareholders. But can the other stakeholders accept this arrangement with the extra effort required of them for no extra reward in terms of profit share?
C	The next of kin want to sell their interest to the remaining shareholders. But will these shareholders be able to raise the necessary funds for this transaction?

Every business should have a succession plan in place, even if a transition, retirement or sale is not a current prospect. Business owners don't think twice about insuring their businesses against fire and theft. However, there are numerous other circumstances that can threaten the viability of a business.

Life Assurance for Limited Companies and Partnerships: A life assurance policy put in place by a company or shareholders to provide the necessary funds to purchase the shareholding from the estate of a deceased shareholder or partner.

Life Assurance for a Keyperson: A life assurance policy put in place by a company on a key employee to compensate the company for the loss of the key person or to repay business loans in the event of the death of the keyperson.

It won't happen to our business!

Many people believe that it simply won't happen to them. After all what are the chances? Well the chances of one partner/director, in a two or three person business dying or becoming seriously ill before retirement, are probably a lot higher than they might think.

Illustration*

John and Therese have 2 children. John jointly owns a business with Alan valued at €500,000.
We sat with John and identified that Therese would need €700,000 if he should die to maintain the family's current lifestyle and provide the money to support the children to age 21.
We helped Alan and John formalise what would happen to the business on either of their deaths. They agreed that on death the survivor will buy the deceased partner's share back from his next of kin and they put a legal agreement in place to cover this.
We put in place a protection plan that pays €250,000 to the surviving partner – if John dies, Alan receives €250,000 and vice versa.
If John dies: Alan receives €250,000 and uses it to buy Therese's share of the business which she has inherited from John. Alan retains control of the business. Therese receives €250,000 from Alan plus €450,000 from personal cover John put in place giving her the €700,000 she needs to provide for her family.

Inheritance Tax Planning

Business owners in particular should take a close look at the implications of Capital Acquisitions Tax if they are thinking about passing on their business to their family when they die. There are some tax free thresholds but these depend on the recipient's relationship to the business owner.

Inheritance tax can become a real burden where financial resources are tied up in a business. If people do not plan ahead, their families could be faced with a difficult decision between having to sell the business or borrowing the money to pay the tax bill.

There are a number of solutions to their situation including taking out a life assurance policy to cover the cost of the inheritance tax bill.

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Connections

PSC FINANCIAL PLANNING




We work to give our clients the best possible advice tailored to their circumstances

We have a wealth of financial planning expertise and experience to share. We are a local business who can provide expert financial advice in a wide range of areas.

We would welcome the opportunity to discuss the services we can provide. In the following newsletter we have identified some areas of financial planning where you may require professional advice.

Yours sincerely

PSC Financial Planning Ltd

For business clients we can advise on:

- Business Protection
- Shareholder Protection
- Key Person Protection
- Partnership Protection
- Inheritance Tax Planning
- Director's Pension
- Company Investments

Making use of such arrangements can help ensure you are not left financially exposed. They can also help to maximise effective wealth protection and succession planning.

When would you need our help?

There are certain times in people's lives when they may need to put financial plans in place to protect their income or assets during their working lives or for retirement. These are just a few of the life events where you could benefit considerably from meeting with a financial advisor:

- Marriage
- New home
- Birth of a child
- Inheritance
- Retirement
- Investment property purchase
- Redundancy
- Injury/illness

How we can help you

Investment options

We can offer advice to clients on potential investment options available. These can range from risk managed funds that can protect up to 90% of the value of an investment in volatile markets, to high risk funds that offer the potential for higher returns with a corresponding increase in the risk of losing part or all of the initial investment.

We can also offer clients cash fund alternatives suitable for short term holdings.

Whatever your investment needs we can offer practical solutions and advice.

Retirement Planning

At its core, a pension is simply a long term savings plan designed to replace your income when you stop working. Retirement planning can however be a complex area which may go some way to explaining why less than 50% of people in Ireland have a pension, and why many of those who do aren't saving enough into it.

The State Pension (Contributory) may provide some level of income replacement but you may not qualify for it, and the age at which it becomes payable is increasing. With company pensions no longer guaranteed, people living longer, and question marks over the sustainability of the State Pension, there is a greater onus on people to fund for their own retirement. This increased responsibility combined with the continuous legislative changes in the pensions industry means that getting retirement planning advice from a qualified financial advisor has never been more important.

Pension coverage

Figures published by the Central Statistics Office (CSO) on 30 May 2016 highlight that **the level of pension coverage in Ireland has dropped by nearly 5% in recent years**, from 51.2% in quarter 4 2009 to 46.7% in quarter 4 2015.

Another interesting finding is that 36% of respondents are set to rely on the State Pension as their only form of income in retirement.

22% of those without a private pension said that they never got around to organising it – do you have a pension in place?

State Pension

From 1 January 2014 the State Pension age increased to age 66. The qualifying age is set to increase again from 1 January 2021 to age 67 and from 1 January 2028 to age 68.

The increase in the qualifying age for the State Pension means that it is even more important to consider private pension provision as a means to supplement the additional years where the State Pension is not payable. For those with existing pension provision they may need to consider paying Additional Voluntary Contributions (AVC) to bridge the gap from the retirement age under their pension to the date they will start to receive the State Pension.

Approved Retirement Fund (ARF) or Annuity?

There are a number of options available to those with maturing pensions at retirement. Typically the maximum tax-free lump sum is taken. When weighing up the options regarding the balance of the fund, people are confronted with two main choices: whether to invest in an ARF/AMRF or to purchase an annuity.

This is a big decision to make with a lot of considerations to take into account, including income requirements in retirement, providing for family, health (of the individual and family) and attitude to risk. All of these, and more, should be discussed to allow the individual to make an informed decision on the best possible option for them at retirement.

The USC liability on employer contributions to PRSAs has been abolished

As a result of the Finance Act 2015, employer contributions to a PRSA in respect of an employee will no longer attract a USC liability for the employee. Where an employer decides to establish a PRSA instead of an Occupational Pension Scheme (OPS), in general, the employees will be treated in the same way.

However, employer contributions to a PRSA continue to be treated as a Benefit in Kind (BIK) for income tax where the total contributions exceed the age related tax relief limits.

Generous tax incentives

Using a pension to save for retirement offers the opportunity to avail of a generous range of tax incentives not available through any other savings product.

You can take tax relief on your pension contributions, your fund can grow tax free, you can take a lump sum of your savings tax free at retirement (subject to limits) and there is the potential of tax free regular income in retirement if your income falls within the income tax exemption limits.

Age 66
The qualifying age for the State Pension since 1 January 2014.

€12,700 per annum
The level of specified income an individual requires before they can invest directly in an ARF.

0% per annum
The levy on pension funds has been abolished. Good news for pension investors.

Protection

Protect what matters most

With many people facing financial challenges we are urging families everywhere to consider what sort of financial cover they have in place should the unexpected happen.

Many of us will instinctively rely on our savings and investments or the value of our properties as our financial cushion should one partner become seriously ill or die unexpectedly. Typically these are not enough.

Spending a small amount on protection cover means you can provide for the financial needs of your family in the event of serious illness or death.

The issue of financially protecting both you and your loved ones has never been more important than in the current economic climate.

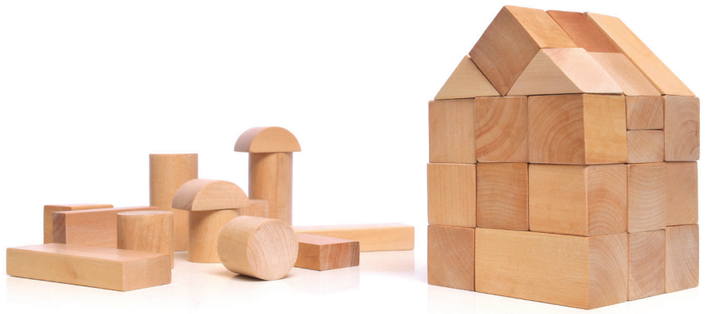

Illustration - Income Protection

Philip is a self employed business owner earning €72,800 per annum (€1,400 per week) and is a higher rate tax payer. He is 37 years old and is a non-smoker. He wants to ensure that if he became seriously ill or injured and was unable to work that 75% of his salary would be paid. Philip is not entitled to any State Illness Benefit.

We advised Philip to take out an income protection plan with a payment after 13 weeks of being unable to work due to a serious illness or injury, and with his benefit in payment increasing at 3% per annum.

Benefit amount: €72,800 x 75% = €54,600 per annum (€1,050 per week)
Gross premium: €168.95 per month
Net cost: €101.37 per month (after tax relief of 40%)

Terms and conditions apply. Benefits are subject to underwriting and acceptance. It is important to note that certain restrictions, conditions and exclusions may apply.

Benefit will increase at 3% p.a. A Government levy of 1% of the premium will be payable on each premium paid. This quotation is for illustration purposes only. It is important to note that tax relief is not automatically granted; you must apply to and satisfy Revenue requirements. Revenue terms and conditions apply.

Quotation from www.bestadvice.ie on 1 July 2016.

Investment property

Q Do you have an investment property which forms part of your financial plans?

Q Is it worth less now than what you paid for it?

Q If you died would you like to leave it mortgage-free?

Answer

In the case of your death, putting life cover in place would benefit you in the following ways:

- Your family wouldn't have to worry about the mortgage.
- Any rental income could contribute towards your family's finances.

Illustration

Gary and Helen bought a property in 2004. As it was an investment property they didn't have to take out mortgage protection cover. Its value quickly rose with the rapid increase in house prices and by 2007 they estimated it was worth about €100,000 more than they had paid for it. At that time they viewed it as a valuable financial safety net for themselves if they ever needed it and something they could pass on to their children in time.

Since 2007, Gary and Helen have fallen victim to the housing market collapse. They are now faced with the reality that the mortgage on their investment property is greater than the estimated value of the property. If they were to sell it today they would have to find an additional €100,000 to clear the mortgage. If their children were to inherit it they would now be inheriting a debt instead of an asset.

Based on their affordability we advised Gary and Helen to take out a plan with €100,000 lump sum on death cover for the remainder of the mortgage term. If either of them died the lump sum payment combined with the value of the property will help ensure the mortgage is cleared.