



# Seven Financial Security Strategies for Principals Post GFC

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More than ever following the GFC it is important for any Principal of a Business or Professional Practice (Principal).

Nevertheless many Principals neglect their personal finances believing that their Business or Professional practice will provide for their personal and family security in retirement or their death.

Yet few Principals have planned for their personal or family security. In tough times with talk of recession following the global meltdown of Financial Markets the opportunity to readily release the Wealth generated by the Business or Professional Practice has become uncertain. Nevertheless Advisers who understand the Principals of Succession, Asset Preservation and Retirement Planning can offer their Business and Professional Clients Financial Strategies to protect and preserve their Business or Professional Practice for retirement or death in tough times.

What follows is a snapshot of seven strategies that Principals of Business or Professional Practices may

consider to preserve their Wealth post GFC.

## 1. Safe Harbour Wealth

Many Principals leave Wealth (either Cash or Property) on the balance sheet in the trading entity of the Business or Professional Practice. On retirement or death a restructure is arranged to transfer personal Wealth to the retiring Principal or their estate in the event of death.

**Implication:** In a financial downturn the Wealth on the balance sheet of the Business or Professional Practice may be exposed to unnecessary financial risk.

**Action Required: Extract Wealth efficiently from the trading entity balance sheet to a separate entity such as a self managed superannuation fund (SMSF) or a trust to ensure that the Wealth is secured, preserved and protected from Business risks.**

## 2. Extract Wealth Efficiently

Extracting Wealth off the balance sheet may dilute the net value of the asset due to tax being paid to either release the asset from the trading entity or tax being

paid to the receiving entity.

**Implication:** An understanding of the three taxing points, that is deductibility, management and end benefits will enable selection of an appropriate entity to protect assets in tough times.

**Action Required: Consider using a SMSF to extract Wealth efficiently within a protected environment with tax deductible contributions, efficient management with earnings in a low tax environment and end benefits paid with little or no tax.**

### 3. Consider Cash flow

Cash flow is the life blood of any Business or Professional Practice at any time and especially during difficult trading conditions.

**Implication:** Principals may be reluctant to extract Wealth off the balance sheet and thus weaken the business finances in the short term.

**Action Required: Consider utilizing 'in specie contributions' that will generate tax deductions and also preserve the assets.**

### 4. Create Working Capital

In tough times Principals welcome the opportunity to find ways to create working capital with assets under their control.

**Implication:** Liquid assets in a SMSF could be used to purchase permitted assets such as listed securities or Business Real Property (BRP) from the Business or Professional Practice for market value from the

balance sheet of the trading entity.

**Action Required: Utilize a SMSF and remove permitted assets from the balance sheet of the trading entity.**

### 5. Accelerate and Unlock Working Capital

If the SMSF does not have enough liquid assets to purchase the BRP consider utilizing a complying loan to enable the SMSF to unlock working capital.

**Implication:** A complying loan to the SMSF will enable the SMSF to purchase an asset such as a BRP with borrowed funds to create working capital in tough times. Capital can be repaid with tax deductible contributions over a period of time.

**Action Required: Accelerate the removal of permitted assets such as BRP from the balance sheet with a complying loan to create and unlock working capital.**

### 6. Keeping the Business and After Tax Income for the Retiring Principal

Many Principals seek to keep the family business and have the Business pay for their retirement income.

**Implication:** Unless the Business can support strong future profits to pay the retirement income of the retired Principal keeping the Business within the family may not be possible. Selling the Business at fire sale prices may also not be an option. However if Business Assets are used effectively and owned correctly Lease payments could be received in certain circumstances tax free to

the Principal through the superannuation fund costing the Business a net 70 cents for every dollar paid to the retired Principal. The Business will claim a tax deduction on the Lease payment and the Lease payment could be received tax free within the SMSF, then paid out tax free to the retired Principal as a pension.

**Action Required: Structure the BRP to be owned by the Superannuation Fund and have the SMSF Lease the BRP to the Business and then pay the Retired Principal a pension**

#### **7. Pay the Departing Principal with Net Payments**

A successor rarely has the funds to buyout a retiring Principal.

**Implication:** If instalment payments are going to be used in the buyout of a Principal's Business or Practice consider making instalment payments directly

into superannuation. Tax deductible contributions, a low earnings tax and concessional tax benefits to the retiring Principal could cost the purchaser a net seventy cents for every dollar paid to the departing Principal.

**Action Required: Consider utilizing net payments when purchasing the Business or Practice on instalments from a departing Principal by utilizing payments into superannuation.**

The above is a snapshot of Financial Strategies in respect to Preservation, Succession and Retirement Strategies for Principals of Business and Professional Practices. For more information about ili and ili Business Succession Strategies please visit [www.ili.com.au](http://www.ili.com.au).

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or contact:**

Melinda Wood - ili Enquiries (02) 9251 3611  
[enquiries@ili.com.au](mailto:enquiries@ili.com.au)