Financial planning tips for entrepreneurs

It can be easy to neglect your own finances when you're focused on growing and nurturing your business. But creating a solid plan, where both your business and personal finances are working for you, could give you more confidence that your hard work will be worth it.

Here are five financial planning tips for business owners.

1. Make the most of pensions

Some entrepreneurs see their company as their pension, but this is a risky mentality to adopt. It is easy to assume that you will sell your business when you want to retire and the proceeds will be your pension. But what if it takes longer than planned to sell your business, or it isn't worth enough to fund your retirement?

Making contributions into a pension could help you build a more secure retirement, and it is also a tax-efficient way to save. As the owner of your company, you can make your own tax-efficient savings into your pension, and you can also make employer contributions which are then deductible against corporation tax.

Your accountant can help you make the most of all the personal and business tax reliefs available to you, as well as advise on the most appropriate business structure for tax purposes.

2. Protect against risks

You're probably well-versed in insurance for your business premises and stock. But have you thought about insurance for what is arguably your most valuable asset – your people? As a business owner, you are your business. If you were to die or suffer an illness that meant you couldn't work, your business could struggle to keep trading. Protection against death and illness could be crucial for entrepreneurs.

You might also want to consider protection for the other key people in your business. Key person protection and shareholder protection are just some of the solutions that could help your business stay afloat should the worst happen to one of your key members of staff or shareholders. It could also be worth getting legal advice on setting up a cross-option agreement. This gives the surviving shareholders the option to buy back the shares of the unwell/deceased shareholder, thereby helping to minimise business disruption.

Finally, make sure you have an up-to-date will. This will ensure your shares or business interest are passed on to the right people when you die and that your family are taken care of.

3. Plan your exit in advance

Exiting your business may seem a long way off, but thinking about your exit early on could reap rewards further down the line.

If you want to sell your business in the future, then it pays to work out your 'magic number'. That's how much you would need from a sale in order to achieve the lifestyle you want. A financial adviser can help you work out how much your future lifestyle might cost, and whether the potential proceeds from a sale, alongside your pensions, savings and investments, are likely to be sufficient. They can also work with you to allow you to undertake new projects or invest in other ventures.

If you are hoping to leave your business to your family, you might qualify for business relief, which may mean there is no inheritance tax to pay on the value of your company shares when you die.

4. Don't put all your eggs in one basket

Your focus may be on making your business the best it can be, but it's important to think about your overall investment strategy. As well as putting money into your business, consider investing across other asset classes, such as equities, bonds and cash. Diversifying your investments could help to cushion the blow to your long-term finances if your business doesn't perform quite as well as you hoped. Depending on your business's cashflow, it could be worth investing some of the excess profits to give them the opportunity for long-term growth.

How much money you put into each asset class will depend on a range of factors, including how long you're investing for, your goals and your attitude to investment risk. We can help you build a diversified portfolio that suits your individual needs and objectives, and adapt your portfolio as your needs change over time.

5. Surround yourself with experts

There's a lot more to being a successful entrepreneur than just having a good idea. Your business needs to be built on solid financial foundations so it can grow to be a success. That's why it's important to surround yourself with a team of experts from day one. It's also important to review your financial plans regularly to ensure they still align with your business and personal goals.

At RBC Brewin Dolphin, we can introduce you to the right people at the right stage of your journey – whether that's venture capital firms, lawyers, or accountants.

We've worked with thousands of business owners, helping them to gain clarity over their financial future and supporting them in making the right decisions. With us at your side, you can concentrate on what you enjoy the most and look forward to the future with confidence.
