

What is *Business Estate Planning*?

Business estate planning is the process of arranging your business affairs now to ensure there is no unnecessary deterioration or loss of continuity in your business should you or one of the other stakeholders/owners or other key people leave through illness, accident or death. It should also ensure that the departing owner or their estate will be fairly compensated for giving up their rights to the business.

How does a business estate plan work?

A business estate plan should detail the legal interest each owner has in the business and the rights of each owner.

It should also give the continuing owners the right to buy the interests of the deceased or disabled owner. And ensure that the departing owner, or their estate, is paid a pre-determined price for their share of the business.

As a result, a business estate plan provides all owners and their spouses with legal certainty should the unforeseen occur.

A business estate plan should also detail the likely risks to the continuity of the business and its profits should you or one of the other owners or other key people leave through illness, accident or death. The plan should outline strategies to ensure those risks are mitigated.

Why is a business estate plan important?

When you define your vision of a secure financial future for your business if you, another owner or other key person were unexpectedly lost to the business, there are many people's financial futures to consider.

They include the departing person and their family, the ongoing partners and their families, and your staff and their families.

To help you create a business estate plan to look after all these people, we have developed a comprehensive process – which enlists the help of an accountant and a solicitor – to take into account many issues, including the ownership of the business, its revenue and its debts.

Business ownership

We will help you and your partners to formally agree on how your business will be valued – and what each partner's share will be. As a result, there should be less risk of:

- A departing owner, or their spouse or estate, taking legal action over a valuation or pay-out figure
- A departing owner's spouse or child deciding – against the wishes of the continuing owners – to become an active hands-on partner of the business (rather than taking the pay-out)
- The departing owner's spouse or family taking their legal right to claim a share of the business profits without having to work in the business
- A departing owner's spouse or estate selling their share of the business to a third party that may be unsatisfactory or unknown to the continuing owners
- The control of the business or its assets being frozen due to legal difficulties created by the departing owner, or their spouse or estate.

Importantly, we will where possible help ensure that capital gains tax is minimised for the departing owner or their estate, and for the continuing owners.

We will also work with you to explore funding options which will allow you to fairly compensate the departing owner or their estate. These options include: the use of business capital or revenue; a new partner buying into your business; borrowing money; and/or a specialised insurance payout. Where this insurance is used, we will advise you on the most appropriate ownership structure for the insurance to ensure it allows for the business estate plan to be implemented efficiently.

Business revenue

The sudden loss of a key person can have an adverse effect on the sales and profits of the business and, until a suitable replacement is found, the business could be faced with recruitment costs, loss of clients, loss of revenue and profits, and negative impact on goodwill and credit rating.

We will help you establish who are your business's key people, and then estimate the financial cost to your business if each of them suffered a tragic event.

If required, we'll then recommend an appropriate insurance policy on each key person for a sum insured equivalent to the estimated financial loss. It is the business that will own these insurance policies and pay the premiums, and it is the business that will receive the proceeds.

Business debts

If you or one of the other owners were to die, any loans or leases your business has may be immediately callable by the lender.

A business estate plan can ensure that debt can be retired by the continuing owners, through either the use of business capital, a new partner buying into the business, re-finance, or an insurance policy. We can help you assess each option, and assist you with obtaining a new loan or purchasing the appropriate insurance.

Regular reviews

Once your business estate plan has been implemented, we will review it regularly to ensure it continues to reflect your vision of a secure financial future for you and your business.

You can fund your business's estate by transferring the financial risk to an insurance company

When it comes to business estate planning, the two big questions you need to ask are:

'Would your business be able to buy a departing owner's share of the business if they died or suffered a serious illness or injury?' And:

'Would your business be able to cover the loss of revenue and goodwill, and re-pay the debts of the business, if an owner or other key person died or suffered a serious illness or injury?'

If your answer is no to one or both of these questions, you need to consider transferring that financial risk to life insurance companies.

They have a range of insurances which can help you fund your business estate plan and give you enormous peace of mind – all for a small fraction of the sum insured each year.

Insurance can help your business maintain its financial equilibrium if life doesn't go to plan

Business insurances worth considering include:

- Buy/Sell insurance – pays your business a lump sum if you or one of your partners dies or suffers a serious illness or injury.
- Key person insurance – Pays your business a sum of money to offset the estimated financial loss to the business should an owner or other key person die or suffer a serious illness or injury.

In addition to these insurances, you should also consider personal insurances which pay you or your family in the event you were to die or suffer a serious illness or injury. These insurances include personal life insurance, income protection insurance, trauma insurance, and total & permanent disablement insurance.

The Australian Unity Insurance Portfolio Construction Process – 8 steps to future financial security

To help ensure your business estate plan is properly funded, we employ our disciplined eight-step insurance portfolio construction process.

We start by assessing your current situation – if the unexpected happened today, what would be the financial cost to your business?

In other words, how much money would be required for your business to buy a departing owner's share of the business, and cover the loss of revenue and goodwill, and repay the debts of the business?

We then develop strategies to help you transfer that risk to insurance companies, and identify which types of insurances you require.

We also help you qualify for tax deductions on the annual premiums where possible.

Next, we research the major, reputable insurance companies to find the insurances which provide you with the right level of protection, including the definitions and exclusions which best suit you and your business.

Of those insurances which meet your needs, we obtain quotes to ensure we recommend the most cost effective products.

The next step is for you to determine if that cost is affordable. If it's not, you might choose to reduce the cost by reducing the amount insured – in other words, having your business retaining some of the financial risk itself.

Once you have made that decision, we finalise your risk transference plan, and arrange the purchase of the recommended insurances on your business's behalf.

That may require you and other key staff to undergo physical exams from a doctor (which the insurance company should pay for), as well as completing the required paperwork and declarations (we will assist you with this).

Once your insurance portfolio is in place, we will regularly review it – and your situation - to ensure your portfolio continues to be relevant and cost effective.

Should your situation change along the way, or if the legislative framework in which we work changes, we will work with you to modify your risk insurance plan accordingly.

The Australian Unity Business Estate Planning Process

Key Issues

Plan for: Loss of you, or a partner, or other key person, to the business due to death or severe illness or injury

Business Ownership

Determine who will be the ongoing owner/s. Agree on compensation for departing owner or their estate for giving up their rights to the business. Develop strategy to ensure agreed transfer of ownership is effected quickly, tax effectively and with minimal risk of legal challenges.

Considerations:

- How will the business be valued?
- Do you want a third party (known or unknown) to become part-owner?
- What is the capital gains tax position for all parties?
- How will compensation be funded:
 - Business capital or revenue?
 - Third party buying into business?
 - Debt?
 - Sell business or personal assets?
 - Insurance?

Business Revenue

Determine cost to business of losing a key person. Develop strategies to cover that cost... and to replace departing key person.

Considerations:

- Time needed to find suitable replacement?
- Loss of revenue?
- Loss of profit?
- Loss of goodwill?
- Loss of clients?
- How will the business fund these losses?

Business Debts

Develop strategy to repay debts if called by bank (as they are allowed to do on death of an owner).

Considerations:

- Repay debt by using –
- Business capital?
 - Third party buying into business?
 - Re-finance with another lender?
 - Insurance?

Regularly review business estate plan to ensure it continues to be appropriate

We've been helping Australians create secure financial futures since 1840

More than anything else, Australian Unity exists to serve its clients.

It is the way we conduct our business now as one of Australia's leading financial services institutions, and the way we have conducted our business for more than 160 years.

This can be traced back to 1840 when one of our forebears Manchester Unity was established as a friendly society.

Manchester Unity's purpose was for its members to make weekly contributions to a common fund, which paid benefits to those members who became ill, lost work, or who otherwise suffered financial hardship.

Back in an era when the government supplied minimal community services and benefits, Manchester Unity

provided vital financial security to its members. It was a financial service based on mutual trust and dependability, and it is an ideal Australian Unity still holds true today.

Since those early days, our range of services has evolved to meet the changing needs of our clients, and we now offer private health cover, property and funds management, retirement villages & aged care facilities, insurances, and personal financial services.

And while we are a major provider of financial services in Australia with substantial resources, we will always be driven by our community-based values and our heritage of helping Australians to create secure financial futures.

Who is Australian Unity Personal Financial Services?

We specialise in providing professional strategic advice to help you improve your current financial position and ultimately achieve your long term lifestyle goals.

Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

- Financial advice
- Retirement planning
- Superannuation
- Wealth creation
- Investments
- Home loans

- Commercial loans
- Equipment finance
- Personal estate planning
- Personal risk insurance
- Investment loans
- Car finance
- Business estate planning
- Business risk insurance.

Australian Unity has a proud 160 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services... each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

After all, your financial wellbeing is at the heart of everything we do.

MoneyInsights®

with Australian Unity Personal Financial Services

Australian Unity Personal Financial Services is committed to providing Australians with a genuine understanding of their investment options. This is achieved via our comprehensive investor education program called Money Insights.

Because knowledge is the first step to creating a secure financial future.

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