

people in focus

The Grant Thornton periodical
focusing on people and
relationship issues in management

Grant Thornton 

In this edition of **people in focus**, we focus on the options available to business owners who wish to preserve their wealth...

The primary focus for many family business owners is the business itself. All the family members' efforts are directed towards the establishment, development and maintenance of the business.

It is not uncommon for the founder of the business when approaching retirement to realise that their only real asset, outside of the family home, is the business.

Common concerns that start to arise include:

- how does the founder start to accumulate wealth outside of the business without adversely affecting the business?
- how does the founder start to protect their personal assets from business risk, ie releasing of the family home from the

business' security net and/or the release of personal guarantees?

- how do you manage the asset pool outside of the business? and
- which family members are entitled to share in the wealth extracted from the business?

Asset protection

Recent high profile corporate collapses and bankruptcies have highlighted the importance of taxpayers, particularly professionals, implementing asset protection strategies. Asset protection should be the taxpayer's main focus when establishing a business or investment structure, rather than tax minimisation.

Asset protection does not simply involve considering what will occur if a taxpayer is successfully sued. It must encompass protecting all of the taxpayer's assets including business assets, personal assets and superannuation investments. It should also encompass circumstances such as death and divorce. There is no point placing all assets in the spouse's name if the spouse dies and under the terms of the spouse's will, all the assets are left to the taxpayer and are now available to the taxpayer's trustee in bankruptcy.

The establishment of a discretionary investment trust and/or superannuation fund in which non-core business assets are transferred may assist in the protection of assets from the business risk while also creating an income stream for the founder in retirement.



Wealth and retirement planning....

It is crucial that a strategic plan for the family includes building wealth for the family that is external to and separate from the business.

If the strategy is implemented well, it will assist in:
n facilitating succession as the founder is not financially dependent on the business to fund their retirement; and
n protecting the family from the risk associated with the business' trading activities.

Key issues to consider when implementing the asset diversification strategy are:

- ability to structure an appropriate investment mix for the family;
- ability to distribute investment assets to next generations; ie structuring the holding of the investment assets in appropriate vehicles;
- ensuring the founder has a sufficient pool of assets to fund their retirement;
- the timeframe in which the family pool of assets is to be built;
- the financing arrangements for the business and the investment assets and whether these need to be reviewed; and

- how the family believe that they will realise their current equity in the business; ie by sale to the next generation, selling a minority interest, trade sale, management buy-out etc.

Appropriate investment vehicles to own the investment assets may include one or more of the following:

- discretionary trusts;
- non-working spouses who are not exposed to the business risk; and
- superannuation funds.

Planning for retirement, both from a lifestyle and financial perspective, should be part of the founder's long term wealth creation process. The changes to capital gains tax (CGT) on 20 September 1999 incorporated some amendments in the treatment of the sale of a small business. The complexities and the interrelationship between small business, CGT and retirement has resulted in this area requiring significant planning. In short, the changes allow small business owners to reinvest back in their own businesses with the view of realising these assets to fund retirement.

For further information on any of the stories in this issue of People in Focus contact your local Grant Thornton office.

Adelaide

Philip Paterson
67 Greenhill Road
Wayville SA 5034
T 08 8372 6666
F 08 8372 6677
E info@gtsa.com.au

Brisbane

Bob Lunney
Grant Thornton House
102 Adelaide Street
Brisbane QLD 4000
T 07 3222 0200
F 07 3222 0444
E info@gtqld.com.au

Melbourne

Mark Cummings
Rialto Towers
525 Collins Street
Melbourne VIC 3000
T 03 9611 6611
F 03 9611 6666
E info@gtvic.com.au

Sydney

Robert Quant
383 Kent Street
Sydney NSW 2000
T 02 8297 2400
F 02 9299 4445
E info@gtnsw.com.au

Perth

Peter Fallon
256 St George's Terrace
Perth WA 6000
T 08 9481 1448
F 08 9481 0152
E pfallon@gtwa.com.au

DISCLAIMER

This newsletter is general in nature and its brevity could lead to misrepresentation. No responsibility can be accepted for those who act on its content without first consulting us and obtaining specific advice.

Each office listed is a business operated independently of other firms and entities who use the trademark Grant Thornton. Grant Thornton is a trademark owned by Grant Thornton International and used under licence by independent firms and entities throughout the world. Liability limited by a scheme approved under Professional Standards Legislation.

Grant Thornton 
www.granthornton.com.au