HERITAGE WEALTH
FINANCIAL PLANNING

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The Planning Edition

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When Headlines Worry You, Bank on Investment Principles

Dear Reader,

On Friday, March 10 2023, regulators took control of Silicon Valley Bank as a run on the bank unfolded. Two days later, regulators took control of a second lender, Signature Bank. With increasing anxiety, many investors were eyeing their portfolios for exposure to these and other regional banks.

Rather than rummaging through your portfolio looking for trouble when headlines make you anxious, turn instead to your investment plan. Your plan should be designed with your long-term goals in mind and based on principles that you can stick with, given your personal risk tolerances. While every investor's plan is a bit different, ignoring headlines and focusing on the following time-tested principles may help you avoid making shortsighted missteps.

1. Uncertainty is Unavoidable

Remember that uncertainty is nothing new and investing comes with risks. Consider the events of the last three years alone: a global pandemic, the Russian invasion of Ukraine, spiking inflation, and ongoing recession fears. In other words, it may have seemed as if there were plenty of reasons to panic. Despite these concerns, for the three years ending February 28, 2023, the Russell 3000 Index (a broad market-capitalization-weighted index of public US companies) returned an annualized 11.79%, slightly outpacing its average annualized returns of 11.65% since inception in January 1979.

The past three years certainly make a case for weathering short-term ups and downs and sticking with your plan.

2. Market Timing is Futile

Inevitably, when events turn bleak and headlines warn of worse to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid near-term pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective.

The impact of miscalculating your timing strategy can far outweigh the perceived benefits.

3. "Diversification is Your Buddy"

Nobel laureate Merton Miller famously used to say, "Diversification is your buddy." Thanks to financial innovations over the last century in the form of mutual funds, and later ETFs, most investors can access globally diversified investment strategies. While not all risks—including a systemic risk such as an economic recession—can be diversified away (see Principle 1 above), diversification is still an incredibly effective tool for reducing many risks investors face.

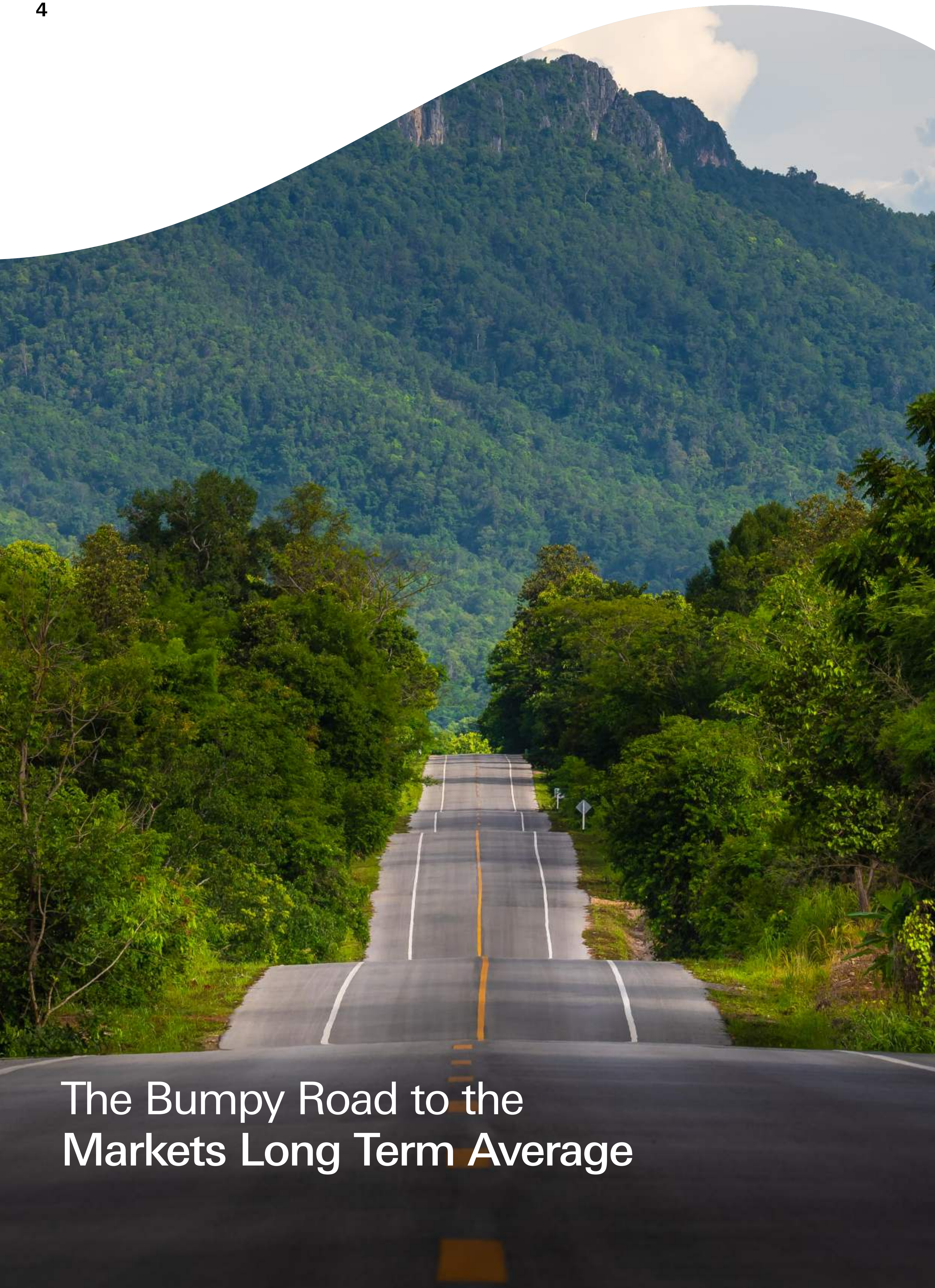
In particular, diversification can reduce the potential pain caused by the poor performance of a single company, industry, or country. As of February 28, Silicon Valley Bank (SIVB) represented just 0.04% of the Russell 3000, while regional banks represented approximately 1.70%. For investors with globally diversified portfolios, exposure to SIVB and other US-based regional banks likely was significantly smaller. If buddying up with diversification is part of your investment plan, headline moments can help drive home the long-term benefits of your approach.

When the unexpected happens, many investors feel like they should be doing something with their portfolios. Often, headlines and pundits stoke these sentiments with predictions of more doom and gloom. For the long-term investor, however, planning for what can happen is far more powerful than trying to predict what will happen.

We hope you find this edition of the Heritage Business Review an enjoyable and insightful read.

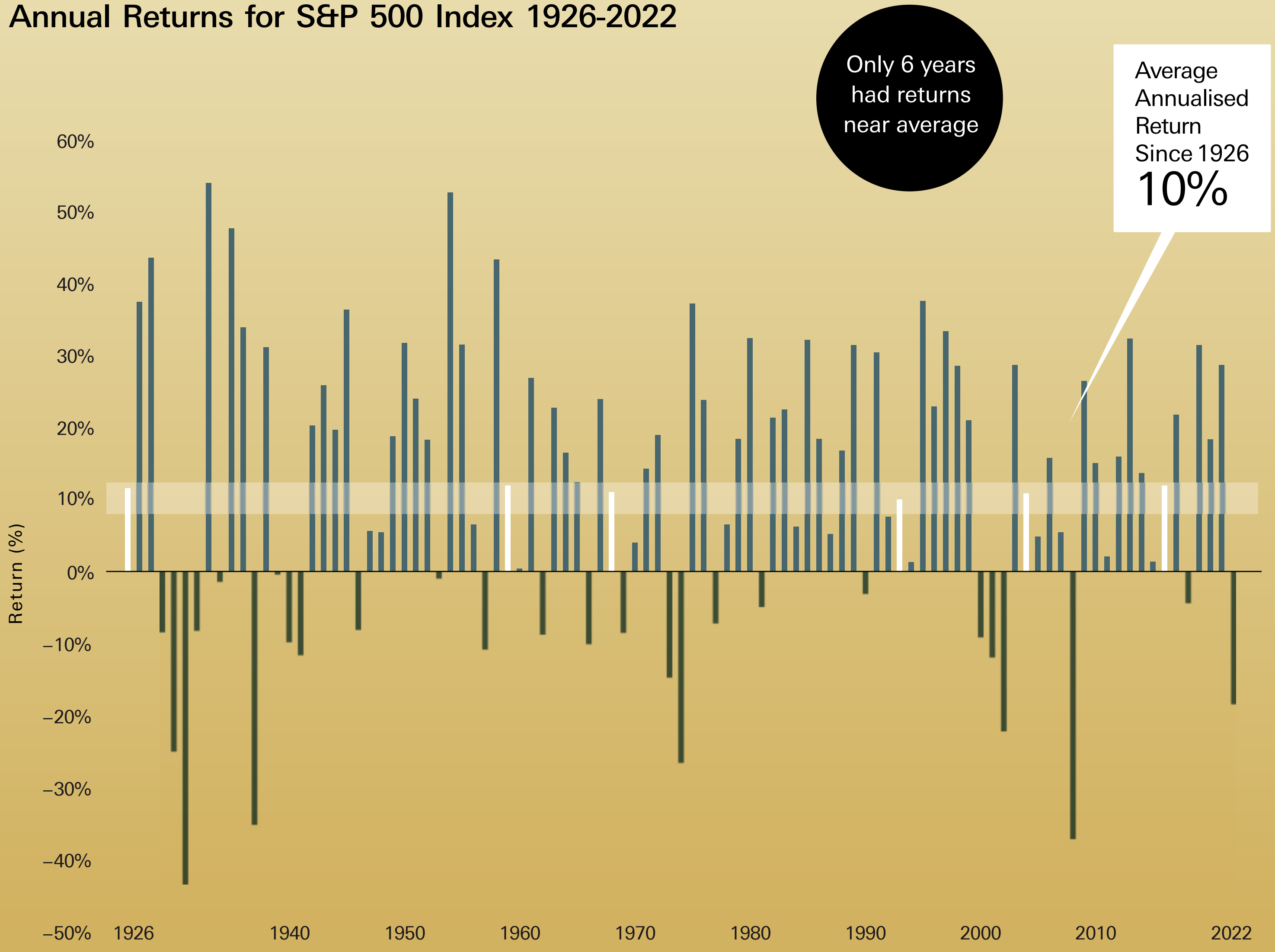
Sincerely,
Gerard O'Brien

Gerard O'Brien



The Bumpy Road to the Markets Long Term Average

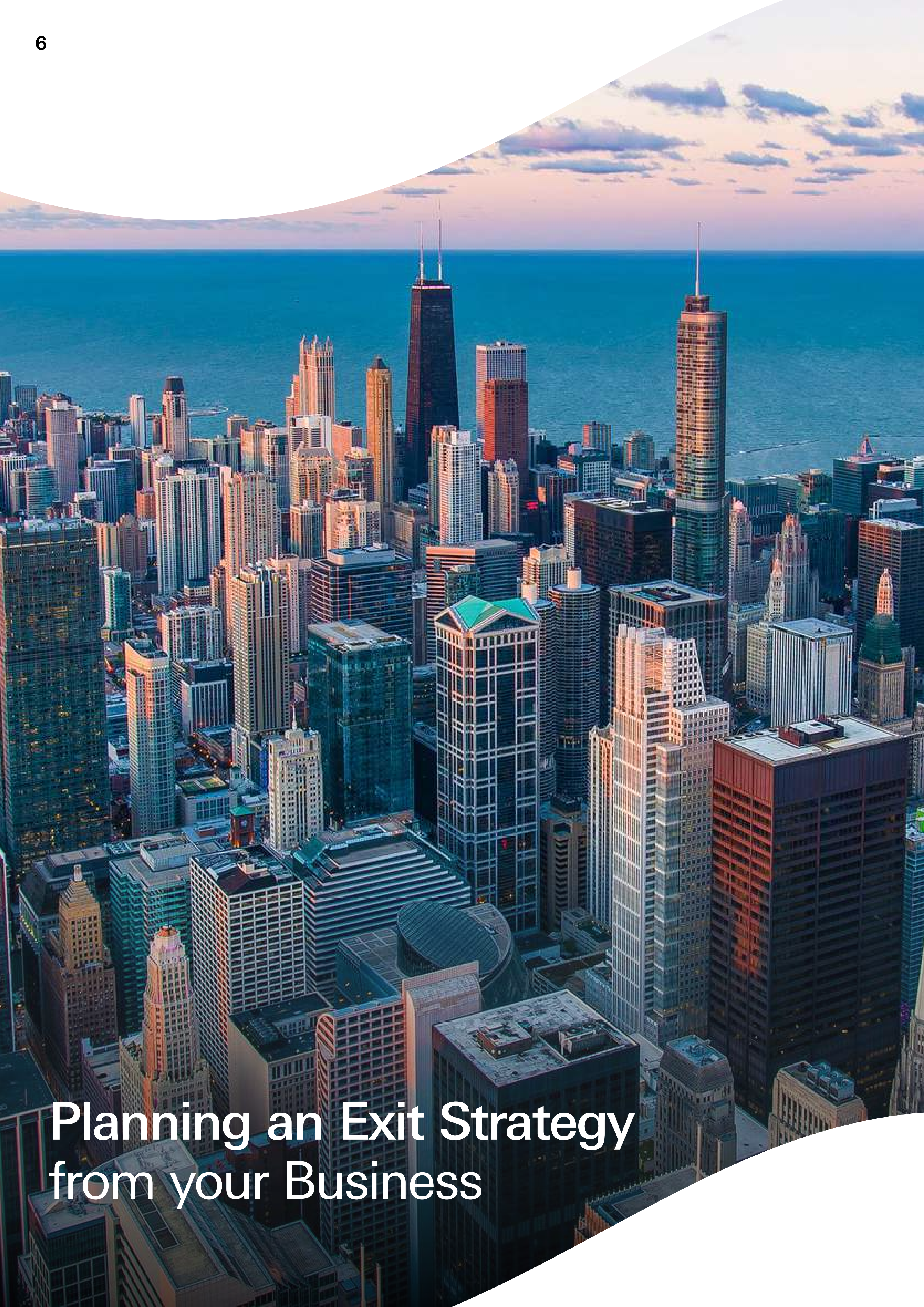
Annual Returns for S&P 500 Index 1926-2022



Since 1926, the US stock market has rewarded investors with an annualised return of about 10%. But returns in any given year may be sky-high, extremely poor, or somewhere in between.

- Annual returns came within two percentage points of the market's long-term average in just six of the past 97 years.
- Yearly returns have ranged as high as up 54% and as low as down 43%.
- Since 1926, annual returns have been positive 71 times and negative 26 times.

"Understanding the range of potential outcomes can help you stick with a plan and ride out the inevitable ups and downs."



Planning an Exit Strategy from your Business

We are very often asked, what tax planning options might arise prior to, or in the course of, the sale of a business? This very much depends on the particular circumstances of each company or individual. It is not possible to fully explore all of the possibilities in this brief article, however, some of the most common considerations should include:

Ex-Gratia Termination Payment

An ex-gratia termination payment is a tax-free payment that may be paid to departing staff and/ or company directors at the time that they exit a business by reason of redundancy, resignation, retirement or otherwise. There are 3 formulas used to identify the max tax free amount that can be paid. This amount will depend on recent remuneration levels, length of service, and existing pension value at the time of their departure. This can be a very tax efficient means of securing a tax-free benefit for employees, family members involved in a business, as well as for shareholding Directors.

By way of an example, if an individual has a salary of €100,000, has 20 years' service, and has no occupational pension entitlement, they could receive an ex gratia termination payment of up to €133,333 which would be completely free of taxation for the individual, and would be a tax deductible expense of the employer company.

Pension Contributions

Pension contributions can often be prioritised and maximised prior to a business sale. This can achieve a tax efficient reduction of the company's cash reserves, and achieves an economical transfer of company's assets to those now owned personally. Depending on individual circumstances, it can often be possible to contribute well in excess of €100,000 per annum to each individual employees'/ directors' pension scheme, and sometimes the maximum permitted funding level can be much higher than that.

Tax Reliefs Applicable to a Sale of Shares

A number of tax reliefs may be available in the event of a sale of a trading company, these include the following three reliefs from Capital Gains Tax;

Retirement Relief

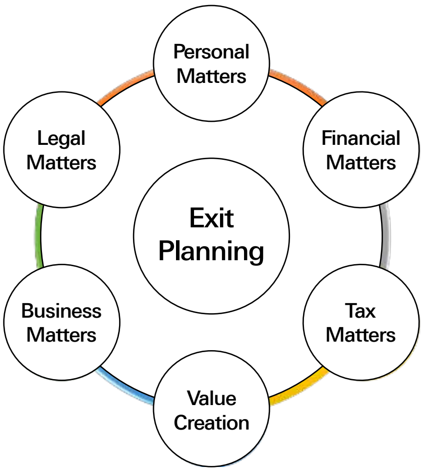
In certain circumstances, Retirement Relief from CGT gives exemption on a gain made by an individual on the disposal of his/her business assets from Capital Gains Tax, (CGT). An aggregate lifetime limit applies to disposal proceeds that can qualify for Retirement Relief, (this limit is €750,000 for individuals aged 55-65, and €500,000 for those over 65). However, if a disposal is made to an individual's children, no restriction applies to the amount of disposal proceeds that can be received by an individual aged 55-65, and a €3,000,000 limit applies to those over 65.

The qualifying criteria are as follows;

- The disposal must be made by an individual who is at least 55 years of age at the time of the disposal
- Assets disposed of must be "qualifying business assets"
- Assets must have been owned by the individual for at least 10 years preceding the disposal
- The individual must have been a director for 10 years, at least 5 of which he or she was a full-time working director.

"The definition of a 'full-time working director' means a director who is required to devote substantially the whole of his or her time to the service of the company in a managerial or technical capacity."

It should also be noted that where relief is claimed in relation to a disposal to a child, any further sale by the child of the assets within 6 years could trigger a claw-back of any relief granted. In addition, Finance Act 2017 introduced a provision which prevents Retirement Relief from being claimed where the shares are sold to a separate company which is controlled by a Connected Party.



Entrepreneur Relief

This relief was originally introduced in the 2013 Finance Act. It applies to individuals who are disposing of business assets of a qualifying enterprise, with qualifying disposals now liable to a reduced Capital Gains Tax of 10%, subject to an overall lifetime limit of gains amounting to €1 million. The standard CGT rate of 33% will apply to any gains made in excess of the lifetime limit.

In order to qualify for the reduced CGT rate of 10%, an individual must have owned the business assets for a minimum period of 3 years prior to disposal/ sale. The definition of a "chargeable business asset" includes shares in a company whose business consists wholly or mainly of carrying on a qualifying business. A qualifying business is any business other than the holding of assets as investments, or the holding and development or letting of development land.

If you are selling shares, in order to qualify for the relief you;

- Must own not less than 5% of the shares in the qualifying company
- Must be a director or employee of the qualifying company in a managerial or technical capacity
- Must spend at least 50% of your working time in the service of the qualifying company
- Must have served in that capacity for a continuous period of 3 years in the 5 years immediately prior to the disposal

Participation Exemption/Substantial Shareholding Relief

This relief results in a complete exemption from Capital Gains Tax for parent companies that are selling shares in a subsidiary company, therefore resulting in a "Nil" CGT liability arising on the disposal of qualifying shares. It is available where a parent company sells shares in its subsidiary company, provided the following requirements are met;

A. The subsidiary company whose shares are sold must be wholly or mainly a trading company, or the corporate group as a whole must be wholly or mainly a trading group. (ie: the majority of income and profits that are trade related rather than derived from investments)

B. The selling company, (parent company), must have held at least 5% of the subsidiary company's shares for at least 12 months in the three year period leading up to the sale,

C. The subsidiary being sold must be resident in an EU member state, or a country with which Ireland has a double tax treaty in place, and

D. The shares disposed must not derive their value from Irish situate land, buildings or mineral rights.

While this exemption would not secure sale proceeds into the personal ownership of an individual, however it can be a very useful planning tool where proceeds from the sale of shares can be transferred up into a parent or holding company with no Capital Gains Tax arising.

Planning for **the Unexpected**

Unexpected events can take a lasting toll on your financial security. Whilst you cannot predict what experiences you will encounter in life, there are steps you can take to prepare for the unexpected.

Funding for Emergencies

If money is ever needed at short notice, it is important to ensure that you can access it quickly and easily.

For this reason, we always recommend having liquid deposit accounts and short-term savings as part of your overall financial planning requirements and objectives.

Life Insurance can Help Protect Your Family's Future

Life insurance pays out a cash lump sum if you die during the term of the policy. It is one of the most important types of insurance cover available to you and your family because it helps to provide financial peace of mind should something unexpected happen. Whether you're looking for a single, joint or dual life policy, or even life insurance with additional benefits like serious illness cover, we can help you find a comprehensive quote that meets your needs.

Although nothing can ever replace the care you offer to those you're responsible for, providing them with access to life insurance benefits is a simple yet vitally important way to ease financial worries.

Protecting your Income

Income insurance pays you a regular income if you cannot work because of an injury or illness while you are employed.

This type of insurance policy helps you maintain your lifestyle by giving you a monthly income if illness or injury prevents you from working for a period of time, so that you can concentrate on getting better. This is particularly important for the self-employed, and for those employees who do not have this cover as part of their contract of employment.

If you cannot work, you will still need to pay the mortgage and bills, therefore protecting your income is vital.

Specified Illness Cover

Specified Illness Cover pays a lump sum if you are diagnosed with an illness covered on the plan. The lump sum can be used to help maintain your family's standard of living or adapt your home for your illness, as examples.

The cost will depend on your age, your health, the term and agreed level of cover.

Making a Will

A Will is a legal document in which the individual expresses their wishes as to how their assets will be distributed after their death. Without a will in place, your assets will be distributed in accordance with the succession act, which may not be in accordance with your wishes or what is best for your loved ones. Having a will in place will allow you to make provision for your family in accordance with their specific needs; as well as a simpler, faster and more tax efficient administration process.

Safeguarding Your Wishes if You Become Incapacitated

If you ever become incapacitated, for example due to dementia, a signed Enduring Power of Attorney would clearly state who should manage your affairs. No one ever wants to think about situations like these, however, it is sensible to have this in place, even if it is never needed.

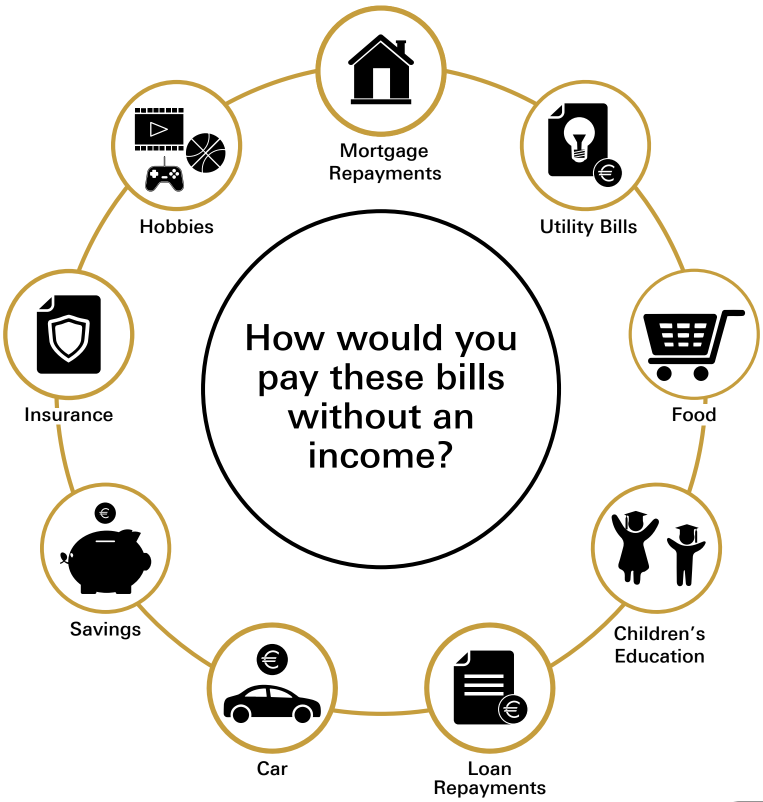
You should talk to your solicitor in respect of your Will and an Enduring Power of Attorney.

Fair Deal Scheme

You can apply for financial support to help pay for the cost of care in a nursing home through the Fair Deal Scheme. You need to be approved for Fair Deal before you can receive funding for a nursing home. You can choose to pay privately for care whilst you wait for funding. The Fair Deal financial assessment will tell you how much you will pay towards the total cost of nursing home care.

State Pension

The state pension will provide most people with a basic level of retirement income, provided you qualify. There are a variety of PRSI classes which determine the contribution payable by you and the benefits available to you. It is advisable to discuss your PRSI contributions with your Accountant to ensure that you and your spouse /partner will receive the full state pension. If you want to find out more about state pensions, you should also look for information on the Department of Social Protection website www.welfare.ie.



Summary

The peace of mind that comes with having adequate financial provisions and arrangements in place to deal with unexpected events, is invaluable. Your financial advisor, accountant, tax consultant and solicitor can all assist you by putting the right plans and structures in place for your particular circumstances.

Please do not hesitate to contact us should you wish to discuss any of these considerations in further detail.

We would be delighted to assist where we can.

Get In Touch

We want to thank you for taking the time to read our newsletter. If you would like to find out more on any of the items addressed in this edition, feel free to contact us, we are happy to help.

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