

Exiting your business

Every business owner should have an exit strategy in place, and as more and more owners and directors approach retirement, is now the time to look at your exit strategy?

Your personal exit strategy

Every business owner should have a personal exit strategy. We sometimes refer to this as 'starting with the end in mind'.

Key issues to consider could include:

- Passing on your business to your children or other family members, or a family trust
- Selling your share in the business to your co-owners or partners
- Selling your business to some or all of the workforce
- Selling the business to a third party
- Public flotation or sale to a public company
- Winding up
- Minimising your tax liability
- What you will do when you no longer own the business
- Whether the new owners will need or desire your involvement after the sale.

Maximising the value of your business

Whoever buys your business will want to be clear about the underlying profitability trends - are the profits on

the increase or decrease? What is the effect of recent economic conditions on the profitability and value of your business? Up-to-date management accounts and forecasts for the next 12 months will be close to the top of the list of the information that you should be prepared to make available to prospective buyers. The value attributable to many businesses is driven by the historical profits and therefore a rising trend in profitability should result in an increase in the business' value.

For more information about how we can help you plan for the future, call us.



Maximising profitability

Profitability planning is always important but particularly in the years leading up to the sale. So, what is the value of your business? Although you may think you can make an educated guess, a professional valuation gives you more solid ground. Assess your position today and then work with us to see how you can make your business more valuable. These are the sorts of questions a potential purchaser might ask himself:

- Are sales flat, growing only at the rate of inflation, or exceeding it?
- Is yours a service business with limited fixed assets, or are stock and equipment a large part of your company's value?
- To what extent does your business depend on the health of other industries or the economy?
- What is the outlook for your line of business as a whole?
- Will your company's products and processes be outmoded in the near future?
- Does your company use up-to-date technology and have a well-developed research and development programme?
- How competitive is the market for your company's goods or services?
- Does your company have to contend with extensive regulation?
- Are your company's products and services diversified?
- What are your competitors doing that you should be doing, or could do better?
- How strong is the company's staff that would remain after your sale?
- Do you plan to make yourself available to the new owners? On what terms?



Business UPDATE



When should you sell?

You need to weigh up the factors which might influence the right time for you to sell your business.

Personal factors

There are many personal factors that are likely to influence your decision as to when to sell your business. You may need to think about:

- When do you want to retire?
- Has your health begun to deteriorate?
- Do you still relish the challenges of running your business?
- Does your business have an heir apparent?
- What do you wish to do with your capital?
- Will your income stream and wealth be adequate, post sale?
- Will the business want your services after you retire?

Business factors

External factors can also be important in timing your sale. If you can time your business sale to coincide with a period of economic growth, when buyers outnumber sellers and will pay premium prices, you will most likely secure the best price.

The following questions may assist in assessing the climate for selling your business:

- How has the recent adverse economic environment impacted your business?
- What is the effect of the current state of the stock market?
- To what extent is your business 'trendy' or at the leading edge?
- Is your business forecasting increases to the top and bottom lines?
- Is your business doing better than other similar businesses?
- Is your business at, or near, its full potential?

Minimising Capital Gains Tax

Taxes are one of the necessary realities of a business owner's life. When you raise that final sales invoice and take the proceeds from the sale of your business, you should be completing one of the last steps in a strategy aimed at maximising the net return by minimising the capital gains tax (CGT) on the sale.

Capital Gains Tax basics

CGT reliefs may be very valuable

Entrepreneurs' relief applies to the sale of a business and can reduce the rate of tax paid from 18 per cent or 28 per cent to 10 per cent. It is essential if you want to maximise your net proceeds that you consult with us about the timing of a sale, and the CGT reliefs and exemptions which you might be entitled to claim. The maximum tax reduction is currently £1,800,000 which is 18 per cent of the £10 million exemption.

Holdover relief

This relief generally applies to gifts of business assets and will normally reduce the tax payable to zero. It works by treating the donor's gain as if it were attached to the asset - effectively passing on the donor's gain to be added to any gain realised later by the recipient of the gift. Holdover relief must be specifically claimed by both the donor and the recipient of the asset. If you are passing your business on to a member of your family, this relief may be relevant to you. If you are paid the full value of the business, holdover relief will not be available to you.

Rollover relief

This relief applies to the replacement of business assets, and is intended to allow the seller to reinvest all of the proceeds of the disposal in a replacement asset, which he would not be able to do if he had to pay a tax liability. It normally operates by reducing the cost of any new asset by some or all of the gain realised on the disposal of the old asset.

Eliminate CGT altogether?

CGT is only chargeable where the taxpayer is resident in the UK at the time the gain arose, so becoming non-resident before the disposal can eliminate the charge, provided the taxpayer remains non-resident for tax purposes for five complete tax years. Furthermore there is no liability to CGT on any asset appreciation at your death. However, it is becoming increasingly difficult to establish non residence and HMRC is likely to challenge any attempt to do so artificially - through the courts if necessary. To benefit from this exemption, it is therefore likely that you would have to leave the UK for good, cutting all ties in favour of a new place of residence. Remember that the country you move to may also charge a form of CGT on disposals.

Here is where we can advise:

- Identifying successors in the family
- Minimising the tax on gift or sale of the business
- Identifying successors within the business
- Identifying possible purchasers
- Valuing your business
- Grooming the business for sale
- Preparing the business for success without you
- Timing the sale
- Maximising the sale price
- Minimising the tax on a sale
- Planning your transition to your next business
- Providing succession options through your partnership or shareholders' agreement
- Providing for a smooth transfer of your business interests at your death or if you become disabled

As your taxation advisers we aim to keep you up-to-date, but personal advice should always be sought before taking any action - we would be delighted to advise you on any taxation matter.

