FINANCE UPDATES

APRIL 2022

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BUSINESS EXIT STRATEGIES

Options for sale or succession.

The past couple of years gave many business owners more challenges than they'd ever faced before.

From political turbulence and Brexit to the far-reaching and long-lasting impacts of the COVID-19 pandemic, it would be an understatement to say things have been tough.

If you were already thinking about retiring in the near future, you might now be ready to call it a day and hand over control of the business to a new owner. Alternatively, you might be looking for a new challenge to get stuck into after growing your business to a certain point.

Whatever your reasons, exiting a business needs careful planning, and enough time to make sure things go smoothly.

THINGS TO THINK ABOUT BEFORE YOU EXIT

Before we get into the details of different exit strategies, there are a number of important things to consider when planning to leave your business.

To begin with, what's your main motivation for the exit? Are you largely focused on maximising your profit and investing it into your next project, or do you just want to finish up and enjoy your retirement as soon as possible?

Similarly, when do you want to have left your business? Putting a date on it – rather than 'sometime in the next few years' – will make it much easier to plan realistically.

Think about your financial position now, and the financial goals you'll need to meet. For instance, if you're planning on leaving to retire, will your pension income be enough to sustain your desired lifestyle? Or will you need to release some capital from your business to go towards this?

Your personal finances and that of the business might overlap to some degree, and your own situation will affect what you choose to do with the business. This is something we can help you to manage.

Then there's the business itself. After all the time and energy you've put into it, the chances are you have an emotional investment in the future of your business once you've left it – not to mention that of the people still involved in it.

Think about how immediate you see your exit being. Do you want to make a clean break and pass full control to someone new at once, or do you see yourself making a more gradual exit, retaining some involvement as you oversee the transition?

Culture fit is also an important consideration for both parties during a handover. Does the potential new owner share your values and your vision for the business's future, and will staff be happy and productive under their leadership?

All of these factors will affect the kind of exit strategy you choose, so make sure you're clear about this before you begin. The further ahead you can plan, the better – in fact, some recommend getting your exit plan in place at least 10 years before you carry it out.

TYPES OF BUSINESS EXIT STRATEGY

With your initial planning done, it's time to think more specifically about how you'll leave the business.

There are a number of ways to do this, including but not limited to:

- Family succession: you hand over the reins to a chosen successor in your family.
- Merger or acquisition: another business in a related field takes over or buys out your business.
- Management or employee buyout: you sell the business to people already working within it.
- Selling to a partner or investor: if you're not the sole business owner, you can sell your stake to an existing partner or to an investor.
- Company dissolution: often as a last resort, you close the business up and sell or redistribute its assets.

You'll have various things to consider depending on which of these scenarios you go with. But to keep things simple, we've focused on three areas: sale, succession, or ceasing trading altogether.

PLANNING FOR A SALE

Your first step when selling up will be to determine what exactly is for sale: shares in your business, or its trade and assets.

Then, to get an idea of its appeal and value for potential buyers, you should carry out a thorough assessment of your business and look at ways you might be able to make it more profitable before going to market.

Get your records and paperwork in order, ensure your accounts are up to date, and deal with any major issues or disputes. Ideally, you want your business to be running as smoothly and profitably as possible, to give you the best value on your sale.

With that in mind, you'll also need to value the business. Valuations can be complicated – you can consider the cost of the physical assets you've bought, but it's much harder to put a number on your team, reputation, intellectual property and so on.

Seeking professional guidance here will allow you to consider all of those factors and set a reasonable price.

From there, you'll need to find a buyer and agree on the terms of the sale, carrying out due diligence and managing the process from a legal standpoint.

As far as tax implications go, one of your main considerations should be capital gains tax. This is charged on the gain you make when you sell an asset, and usually applies at a rate of 10% for basic rate taxpayers, or 20% for higher-rate taxpayers. (Rates for residential property are higher, at 18% or 28% respectively.)

There are tax reliefs available on the sale of a business – most notably business asset disposal relief, which allows you to reduce the rate of capital gains tax to 10% for qualifying business assets, up to a lifetime limit of £1 million.

PLANNING FOR FAMILY SUCCESSION

If you're transferring the business to someone in your family, your planning process will be different to a sale, with some unique points to consider.

Firstly, think carefully about who you're handing ownership to. Are they definitely the right person for the job, and do they have the skills to manage the business successfully?

Thinking objectively about this can be difficult when it comes to family, so it's often a good idea to get a second, unbiased opinion.

Once you've identified your successor, you'll need to look at any training or mentoring they might need before they're ready to run things on their own.

From a tax perspective, handing over your business can be complex. Capital gains tax might apply, but it's possible that inheritance could come into it too.

A seven-year rule applies to inheritance tax which means that gifts given more than seven years before you die are generally exempt from the tax – but if you're holding assets in a trust, things can become more complicated.

Again, this is an area where it's important to get proper advice, and to begin your plans far enough in advance that you've considered all eventualities and possible tax implications.

Get in touch to talk about financial planning.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.