Tax Considerations

For Business Exit Planning

Forrester Boyd

CHARTERED ACCOUNTANTS

Introduction

Planning to exit your business can be both an exciting and challenging process. Whether you are selling, passing it to family, or seeking other succession options, the tax implications can have a significant impact on the final value you receive. Careful planning around taxes can maximise your return and ensure a smooth transition. Here’s what you need to consider from a tax perspective when preparing your business exit strategy.

Capital Gains Tax (CGT)

One of the most critical tax considerations when selling your business is Capital Gains Tax (CGT). CGT applies when you sell or dispose of an asset that has increased in value since you acquired it, with the tax being paid on the profit you’ve made.

In the UK, CGT rates on business assets have increased with the lower main rate being 18% and the higher main rate being 24%.

QUICK TIPS

Tip: Timing your sale over multiple tax years can help spread your gains, potentially reducing your CGT liability.

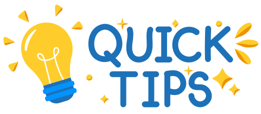
Business Asset Disposal Relief

Business Asset Disposal Relief, formerly known as Entrepreneurs' Relief, offers a reduced CGT rate of 10% on qualifying gains. This relief will increase to14% from 6 April 25 and will increase again to 18% from 6 April 26. This relief is particularly beneficial for business owners who are selling their company or shares, as it can save a substantial amount of tax.

Eligibility:

- You must have owned the business for at least two years before the sale.
- You need to have at least a 5% shareholding and voting rights if selling shares.
- The business must be a trading business, not an investment company.

There is a lifetime limit of £1 million in qualifying gains under this relief, so it's essential to plan accordingly, especially if you expect future disposals.



Tip: Business owners should start planning early to ensure they meet all the qualifying criteria. Engage an accountant to review your eligibility well ahead of the sale.

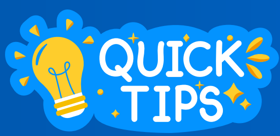
Inheritance Tax (IHT) Business and Agriculture reliefs

If you are passing your business on to family members, Inheritance Tax (IHT) may be a significant consideration. However, several reliefs can reduce or eliminate the tax burden:

From 6th April 2026, the current 100% rate of relief will continue for the first £1 million of combined agricultural and business property for individuals and trusts, except for shares designated as 'not listed' on the markets or recognised stock exchanges, such as AIM. The rate of relief will be 50% for such assets above the £1 million threshold for fro all 'not listed' shares.

The existing 50% rates for business and agriculture relief will continue where they currently apply (e.g. to farmland let before 1 September 1995) and will not be affected by the new allowance.

For certain trusts that were established before 30 October 2024, the £1 million allowance will apply to each trust. The £1 million allowance will be divided between trusts where a settlor sets up multiple trusts on or after 20 October 2024.



Tip: Make sure to review your ownership structure to maximise BR. Keeping a trading status and avoiding investment-heavy strategies can help secure this relief for your beneficiaries.

Tax Efficient Payment Structures

In some cases, structuring the sale of your business to defer or reduce tax can be beneficial. Common strategies include:

- **Deferred Payments:** **Spreading out the payments for your business over several years can reduce your tax burden by spreading the CGT across multiple tax years.**

- **Earn-Out Agreements:** **An earn-out agreement allows the seller to receive part of the sale price based on the future performance of the business. This can align incentives between buyer and seller while potentially spreading tax liabilities.**

In 2022, private equity-backed buyouts accounted for 45% of all global M&A activity, showing the significant role external investors play in MBO financing (CompareMoney).

QUICK TIPS

Tip: While deferred payments and earn-outs can be beneficial, they come with risks if the business does not perform as expected under new ownership. Seek advice from a corporate finance advisor before entering into such agreements.

Employee Ownership Trusts (EOTs)

Selling your business to an Employee Ownership Trust (EOT) can offer both tax advantages and a means of preserving the business legacy. When you sell a controlling interest (over 50%) to an EOT, the sale is exempt from CGT making this a very favourable consideration, particularly with recent changes in CGT..

Advantages:

- **Tax-Free Sale: The sale of a controlling stake in your business to an EOT is exempt from CGT, making it highly tax-efficient.**
- **Employee Engagement: The business remains in the hands of the employees, often resulting in improved productivity and morale.**

QUICK TIPS

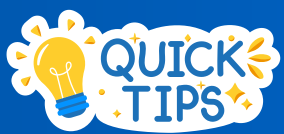
Tip: An EOT is ideal for owners who want to exit while ensuring the company's culture and employee engagement remain intact. It's important to structure the deal properly to qualify for this tax break.

Gift Hold-Over Relief

If you are gifting your business or shares to a family member or into a trust, Gift Hold-Over Relief allows you to defer the CGT until the recipient disposes of the business. This is particularly useful in family succession planning as it allows the transfer of assets without an immediate tax burden.

Eligibility:

- **The business must qualify as a trading business.**
- **You can transfer business assets, shares, or property.**



Tip: Gift Hold-Over Relief is an excellent way to transfer your business within the family, but it's important to understand the tax implications for the recipient.

Conclusion

Tax considerations play a crucial role in determining how much you ultimately take home when selling or exiting your business. By planning ahead, leveraging reliefs such as Business Asset Disposal Relief and Business Relief, and exploring tax-efficient structures like Employee Ownership Trusts or deferred payments, you can significantly reduce your tax liability and maximise the value of your business.

Forrester Boyd's team of experienced tax advisors can help you navigate the complexities of business exit planning, ensuring you benefit from all available tax reliefs while securing a smooth and successful transition. Contact us today to start planning your tax-efficient exit strategy.

Publication Date: November 2024

Forrester Boyd
CHARTERED ACCOUNTANTS

info@forrester-boyd.co.uk
www.forrester-boyd.co.uk

Grimsby :	**01472 350601**
Louth :	**01507 606111**
Scunthorpe :	**01724 863105**
Skegness :	**01754 761777**
Beverley :	**01482 889400**
Lincoln:	**01522 701843**