Thinking of exiting your business?

Our Business Club discussed some of the key considerations for business owners when finding the best approach.

There are a variety of ways to exit a business, beyond simply winding it up and ceasing to trade.

This includes passing it to another family member, selling it to employees through an Employee Ownership Trust or through a management buyout. Looking beyond the existing business, other options could be merging with another company, selling-off specific assets – such as the brand name or business property – or selling the entire enterprise through a trade sale or acquisition.

Plan ahead

Before considering any potential exit option it's important to think about what value there is in the business and to get an idea of its worth to determine who, if anyone, might be interested in it. Owners sometimes have an inflated view of a business's value, particularly if they are key to its success personally. You need to decide if the business is viable without you, or you need to stay on board in some capacity initially.

Start your exit planning well in advance – even years ahead – to focus on building the company's strengths to make it an attractive proposition to others, and addressing any weaknesses.

Advanced planning also gives you a greater opportunity to time your exit when trading or market conditions are most favourable.

Smooth transition

All exits – particularly mergers and acquisitions – are potentially disruptive and may have a big impact on the culture of the business.

It pays to be as transparent as possible about your long-term plans with staff, to take them with you on the journey and prepare for future changes, and to communicate with them clearly and regularly to make the transition as smooth as possible. An Enterprise Management Incentive share scheme may be introduced, if possible, that is beneficial to all parties.

To make the business as resilient as possible you need to anticipate and plan for potential setbacks and put in place measures to minimise their impact – for example, by taking out insurance against loss of key staff.

On a personal level, business owners will benefit if they are psychologically ready for the emotional impact of transition and releasing control of the business. This includes being prepared to deal with the pressure around the likely scrutiny involved in a buyer's due diligence process.

It's also important to find the right advisers to provide the necessary support during the exit process and make transition as stress-free as possible.

Winding up

Sometimes, however, winding up the company may be the most convenient and tax advantageous approach. However, tax-efficient extractions may require the company to be formally liquidated and you also need to ensure you do not fall within the new anti-phoenixing rules. This is as HMRC looks to tax proceeds on winding-up at income tax rates (which are higher than CGT rates). We recommend that professional advice is sought as a correctly undertaken wind-up will significantly reduce the tax burden.

There's more information on exit planning, including a summary of our recent Business Breakfast discussion on the subject on our website at:
https://tinyurl.com/yckzma4b

Tax-efficient incentives to support staff retention

Retaining valued staff in a tough employment market is challenging, but there are a number of tax-efficient ways to help incentivise people to stay.

Contributing to an **employee pension scheme** is a highly tax efficient way to remunerate staff and often the most important benefit prospective employees look for.

You can also help employees progress through their careers with tax-deductible **vocational training** that will reduce your corporate tax bill.

Providing staff with **mobile phones** is a useful tax-free benefit and if they're **home-working** you can also pay them £26 a month tax-free allowance towards their expenses. If an employee has to move home for work, you can pay them a tax-free **relocation allowance** of up to £8,000, albeit subject to strict HMRC qualifying rules.

Salary sacrifice schemes – where employees give up part of their salary each month to, for example, purchase a bike through the **cycle to work scheme** or payments into **pension schemes** – are a win-win as employees pay less income tax and both sides reduce their NICs.

Make the most of the £150 per-person per-year **social events and activities allowance** to pay for occasions like office parties, without staff incurring benefit in kind liabilities.

HMRC's **trivial benefits** rules allow you not to pay tax on a benefit for your employee of up to £50 if it isn't cash or a cash voucher, and isn't a reward for work of in the terms of their contract. This can be used multiple times through the year.

It's important to remember any benefits have strict rules and can potentially impact on employees' tax and NIC liabilities, so speak to us for expert advice before implementing them.