Teachers Financial Planning

Succession planning

This guide looks at how careful succession planning can help ensure a smooth transition when you leave your business

As a business owner, succession planning is something not to be overlooked. The earlier you start planning, the easier the process will be for both you and those around you.

Have you planned when you want to retire? What will happen to your business when you leave or if you died suddenly?

Succession planning involves making sure that when the time comes you have everything in place for selling or passing on your business to a successor, even in the worst-case scenario.

As such, succession planning is something that all business owners should consider.

In fact, many businesses consider their exit and succession plans before they even start their business. That way they can ensure security for both the business and their family.

This is particularly important for family run businesses, where identifying and training a successor may take time. You may have a son or daughter, for example, but need to wait until they are old enough to make a decision about whether they want to take over the business.

Choosing a successor

Whether you plan to sell or pass on your business to family or someone you know, you will need to choose your successor carefully.

If you are planning to hand over the reins, you may want to mentor your successor and ensure that they get the training and knowledge they need. This option is likely to provide peace of mind, both for you and your clients or customers.

When it comes to identifying potential successors you will need to spend time assessing your workforce's skills, or deciding which family members, if any, could step up to the mark.

While it takes time to train someone up to take over the business, it also takes time to prepare your business so that it is ready to sell. It goes without saying that you will want your business to be as valuable as possible prior to selling.

Therefore, the sooner you start planning, the better. In fact, you should be preparing for the sale of your business at least 10 years before you are planning to retire. Choosing who you sell to can be just as important as choosing a successor for the future of the business.

Disposing of business assets

One of the crucial steps in the succession planning process is minimising the capital gains tax bill when you sell or 'dispose' of your business or business assets.

Entrepreneurs' relief

Entrepreneurs' relief is one of the most useful tools to consider. The relief means that you pay capital gains tax at a rate of 10% on qualifying assets as opposed to the normal rates of 18% or 28% for individuals.

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You will qualify if you dispose of any of the following:

- all or part of your business as a sole trader or business partner
- shares in a company where you have at least 5% of shares and voting rights
- assets you lent to your business or personal company.

The maximum tax reduction is currently £1.8 million which is 18% of the £10 million lifetime gains exemption. There are further, specific qualifying criteria for each of the 3 types of disposal, so check that you meet all of the relevant criteria before proceeding.

Gift holdover relief

You could be eligible for gift holdover relief if you are passing your business on to a family member. Instead of paying capital gains tax when you pass on the assets, the person you give them to agrees to pay capital gains tax on any gains when they sell or 'dispose' of them.

However, it is worth remembering that capital gains tax isn't usually payable on gifts to your husband, wife, civil partner or a charity. You won't be eligible if you are paid the full value of the business asset. Here are also specific eligibility criteria for this relief, which you should check before you proceed.

Leaving business property in your Will

If you don't plan for what will happen to your business and its property when you die, your family and or business partners could be left in a difficult position.

Business Property Relief allows you to reduce the value of your business or its assets for inheritance tax purposes when you die.

You can get 100% relief on a business or interest in a business, and shares in an unlisted company.

You can also get 50% relief on:

- shares controlling more than 50% of the voting rights in a listed company
- property, land or machinery owned by the deceased and used in the business
- land, buildings or machinery used in the business and held in trust.

You must have owned the business or asset for at least 2 years before you die for them to qualify.

However, while Business Property Relief will help those who inherit your business or property, the proceeds could one day become taxable.

This is when a Business Property Relief Trust can come into play. By gifting your assets via a Business Property Relief Trust, you ensure that the relief is protected. Trusts can be complicated, so please contact us to discuss your needs and circumstances.

You may also wish to consider setting up a share purchase agreement, which could provide peace of mind for fellow business owners. These agreements enable surviving business owners to buy your shares in the business if you die. This could also be beneficial for your family members, particularly if they aren't interested in the business and would prefer to receive money.

Succession planning pointers

1. The sooner you start to think about what will happen to your business when you retire or die the better. You should start thinking about your exit strategy as early as day one of your business's life.
2. 10 years to retirement? Now is the time to start making a decision about whether you will sell or pass the business on to a family member. If you are going to sell, you can spend that time ensuring the business is as profitable and valuable as possible. If, on the other hand, you have identified a successor, you can plan their training so that they are ready to take over.
3. Use capital gains tax reliefs – if selling or disposing of your business and/or its assets, this could result in a significant difference to your capital gains tax bill.
4. Protect your business and its assets from inheritance tax through your Will or even a Will trust.
5. Put a formal plan in place that all interested parties are aware of and be as open as possible about your plans.

Contact us for advice on succession planning.