Teachers
Financial Planning

Leaving your business

A guide to personal financial planning when selling or exiting your business.

Many people dream of leaving their job and starting a business. A lot of time and effort is, rightly, put into getting a fledgling idea off the ground.

However, in the excitement and stress of starting something new, entrepreneurs often neglect one very important factor: their exit strategy.

While it may seem a little pessimistic to think about leaving your business before you've filed your first tax return, starting with the end in mind will help put both your business and personal finances in the strongest possible position when you do decide to depart.

Starting your exit plan

The first 2 questions to ask are:

- When do you want to leave?
- What do you want to do?

When you want to leave doesn't necessarily have to be a date. It could be a sales objective, a change in your health, reaching a certain age or any other factor that's important to you.

If your leaving date is some way off you don't need to be too concerned with the details. Having a rough idea will help guide decisions throughout the course of your working life.

You'll need to start thinking seriously about what you want to do and how you want to achieve it if you intend to leave in the next few years.

When to leave?

If you are not sure if you want to leave, ask yourself the following questions:

1. Have your life goals changed?
2. When do you want to retire?
3. If you are considering selling within the family and how will this transfer/sale be funded?
4. Has your health begun to deteriorate?
5. Do you still enjoy running your business?
6. Do you want a new challenge?
7. Does your business have a suitable successor?
8. Will your income and wealth be adequate after you leave?

Identify your goals

Broad financial planning principles of identifying your goals and timescales are applicable when planning your exit from your business. General areas to consider are:

- your health
- your desired lifestyle
- you family and loved ones
- retirement
- how much you want to work.

Once you have identified your goals, you can plan how you can use your business to help you meet them.

We can help you put together a financial plan.

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Assess your options

For many owner-managers, their business is their biggest asset. What you decide to do with your business when the time comes to depart will profoundly affect your ability to achieve your personal goals.

There are 4 main options:

- sell
- merge with another company
- pass the business on to someone else
- close the company.

What you want to do personally, the health of your business and your circumstances will shape this decision.

You only get to leave your business once, so take the time to consider the suitability of all options and seek professional help where necessary.

Business value

No matter what you decide to do, most business owners either have a particular sale price in mind or simply want to get the maximum value from their business.

Whatever your approach, planning up to 10 years before you leave your business will help you realise the maximum value from your business.

Key to the value of your business is its profitability: a trend of rising profits should be reflected in its value. Potential buyers will want to be certain about the profitability trends so be prepared to show your accounts and forecasts.

What are your forecasts for the next 12 months like? Do they show increases in the top and bottom lines?

Areas potential buyers may look at include:

- sales figures
- 'goodwill' – which can be made up of brand value, customer relations, customer loyalty, employee relations, intellectual property, etc
- the type of business you run. For example, if you have a service business with limited fixed assets or whether stock and equipment a large part of your company's value
- if your business depends on the health of other industries or of the economy
- if your products or processes are likely to become outdated in the near future
- competition for goods and services in your market
- diversification of your products and services
- whether staff would remain in the business after the sale.

Your circumstances

Although you may be poised to leave, your unique business circumstances may affect the timing of your departure.

For example, is there someone already working for you who can take over your role? If so, how long will it take to train them to manage the business? If not, you will need to look externally to find a successor.

You may want to stay involved in some capacity, particularly if your brand is built around your personal reputation. This could be as a consultant or perhaps working in a less hands on or part-time role.

However, this can create friction over ownership and responsibility so be clear about who is actually in charge.

Have you thought about retaining some shares and the possibility of receiving future income from dividends?

Tax planning

The final part of leaving your business is tax planning.

Self-employed sole traders and people in partnerships will have to pay capital gains tax (CGT) on profits when they sell a business or business asset. This is usually 18% or 28% for basic rate taxpayers depending on their level of income and the size of the gain. Higher and additional rate taxpayers will pay CGT at 28%. Individuals have an annual exemption of £11,100 for the 2015/16 tax year.

However, there are various tax reliefs available which leaves scope for planning.

Entrepreneurs' relief allows sole traders, business partners and individuals with shares in a 'personal company' to pay 10% CGT on qualifying profits when they sell or part of their business.

Gift hold-over relief allows sole traders and partners to avoid paying CGT on business assets which they give away for free. The recipient will have to pay any CGT due when they dispose of the asset.

Capital gains tax and relief can be complicated to calculate so seek professional tax planning advice if you need help in this area.

Contact us to discuss financial planning.