A BUSINESS OWNER'S GUIDE:

EXITS, SUCCESSIONS AND PENSIONS

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BEYOND WEALTH MANAGEMENT

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INTRODUCTION

For business owners, years of time, energy and hard work go into getting their business off the ground, and growing from strength to strength. But what about when you get to the stage where you want to think about retiring, or winding down?

This guide will provide you with a broad overview of the issues you may need to consider, and perhaps a few areas to start thinking about, as you begin to consider ways to exit your business.

Firstly, before you can leave your business, you need to consider the impact that your leaving will have on the business and the people left to run it. What skills do you have, which are vital to the business? Do you perform a role that nobody else can?

You might need to go through a process of succession planning. This means that you may need to ensure that employees are developed and/or recruited, to fill these key roles within your company. The plan is to essentially line up and train up your replacement before you go. It's sensible to do this for all roles, not just your own, if you think you could end up in a vulnerable position if someone was to leave.

Another point for consideration is your shareholding, if you have one. Is your company currently paying a dividend to shareholders? If it is, will this continue? Can the business afford to continue your dividends if you're not also working in the business?

If the answer is Yes, you're possibly all set. That's an income stream for retirement. But what if the answer is No?

> PENSION CONTRIBUTIONS

If you aren't going to receive a continued income from your business in retirement, do you have adequate income from other sources? For most people, this means a pension. You may have contributed to a pension over the years, or perhaps you have overlooked this. Many business owners see their business as their pension, something I'll talk about more later.

As a Director of a company, you are in the fortunate position of being able to have some control over your remuneration package. This means you can make decisions regarding pension contributions, alongside your salary and dividend arrangements. The rules on pension contributions may, at first glance, seem complicated; but initially there are just a few main rules you need to be clear on:

- ***The Annual Allowance:*** This is the most you can put into a pension in one tax year and receive tax relief, from all sources. For the majority of us it's £40,000 in 2020/21, however for some high earners it can decrease to as little as £4,000.
- ***The Lifetime Allowance:*** This is the limit on the amount of pension benefit that can be held in your pension schemes paid without triggering a tax charge when the limit is tested. In 2020/21, the lifetime allowance is £1,073,100.
- ***Personal Contributions:*** You can contribute £3,600 or up to 100% of earnings if higher in some circumstances. But remember the annual allowance too!
- ***Company Contributions:*** There is no link to earnings for these and a company can contribute whatever they wish, subject to the 'wholly and exclusively for business purposes' rules.
- ***Carry Forward:*** Carry forward allows you to make use of any annual allowance that you may not have used during the three previous tax years, provided that you were a member of a UK registered pension scheme in those years. Therefore, depending on your position, you could contribute up to an additional £120,000 to a pension, in addition to the current year's allowance*.

* This will be subject to several criteria, such as your previous contributions, income level, and the source of the contributions.

WHAT DO THESE RULES MEAN?

Well there are a few quirks to the above rules, so you should always get advice specific to your circumstances. But in essence, as a business owner, the above rules are the parameters within which you can start to extract profit from the business, to get ready for retirement, in the most tax efficient manner. If you have cash stuck in the business that you'd like in your own pocket, extracting the money using pension contributions is often the best way to get the money into your own name.

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The alternatives aren't great: You'll pay income tax on extra salary (above your personal allowance); the company will pay corporation tax on money distributed as dividends AND you'll pay income tax at the dividend rates; or you simply leave the money within the business and sell, again, paying tax. A pension is highly tax efficient. You get tax relief on the contributions on the way in: when paid by the business, this means that pension contributions are a tax-deductible business expense. The money in the pension grows tax free, outside your estate for inheritance tax purposes. When you come to take the money out, 25% of the pot can be taken tax-free, and the remainder will be taxed at your marginal rate, as you take it out. Remember- you can't access your pension funds until you're at least 55, so make sure you can commit the money for this length of time.

So, pension it is. If you're thinking of retiring any time soon, you really need to consider making full use of your annual allowance and getting cash you hold in the business, into your own name, each year. This can start as soon as it's affordable- the sooner the better, from an investment perspective. You can possibly also kick start the arrangement with up to £160,000, using carry forward. If you do this whenever possible, by the time you retire you'll hopefully be in a position where you wouldn't be relying solely on your dividends- which will in turn, help the company out after you've retired.

But what if you decide *not* to keep the business going?

> SELLING YOUR BUSINESS

Some people plan to sell their business when they retire. This could be for many reasons: to release equity, perhaps you have no successor, or perhaps simply because you've had enough and want a clean break.

Selling a business is a complex venture that involves several considerations. You'll probably need to enlist the services of several professionals along the way, for example to value the business, facilitate the legal sale, complete your accounts etc. Once the business is sold, you'll need to determine the best way to bank the profit- and juggle the tax bill- to provide you with the best possible result.

There are many detailed guides and articles out there which will go into length about how to sell your business: how to prepare your accounts, how to get the best possible valuation, and how to select your buyer. But initially, you need to make a few basic decisions, after which you can move things forward.

Firstly, why are you selling?

A buyer is likely to care about the answer to this. There's the 'official' answer, and they'll be looking to see if there are any underlying reasons, too. If your reason for selling suggests that the business may not be doing well, this may affect your ability to get the sale. Reasons along these lines may include: personal financial pressures, death of a business partner, partnership disputes, or feeling overworked/underpaid.

How much do you actually think your business is worth?

You'll have heard the saying, 'a house is only worth what someone is willing to pay for it'? We normally hear it when someone is asking for an unrealistic amount of money when trying to sell their house. Understandably, it's difficult to separate your personal feelings towards your home from an objective valuation. It's the same for your business- you've invested so much time and energy into your business, it's difficult to be impartial. If you've been planning to retire on the proceeds of your business' sale, it would also be almost too easy to feel that the business was worth what you want it to be worth, rather than what it is worth.

Getting a robust valuation is imperative to understanding the true worth of the business. You could hire a forensic accountant to value the business- they would be able to get under the skin of the firm and really get a feel for the ideal sale price.

To make your business appear as attractive as possible, the books need to be attractive, too.

Key factors may include increasing profits, consistent income, and a low level of debt. Additionally, you should be able to demonstrate longevity of the business, from day 1. This may include a strong customer contact base, or perhaps a track record of long-term contracts, which span into the future also.

> TIMING

It sounds obvious, but you need to work out when you want to sell the business.

You can't wake up on a Monday morning and decide that you will sell your business that week. The whole process takes time- and energy- and money. Ideally, you'll have started planning for selling your business almost as soon as you started the company, but if not, try to start planning 2-4 years before you want to sell. According to many business advisers, it takes (roughly) 12 months or more to sell a business, from start to finish, including laying all the ground work before you even get the professionals involved.

Considering all the preparation that will be required, you better get cracking. You never know when that perfect buyer may walk into your business and make you an offer you just can't refuse.

These are only a few of the considerations that come into play when you're selling a business. There are lots more. It's important to get sound legal advice at every point. If you need help in finding a solicitor, get in touch and we can help you.

> TAX

Once you've actually sold the business, there's one last major consideration: Tax.

You will need to take tax advice relating to the sale of the business itself. Your tax liability here is likely to be relating to Capital Gains Tax, but there are certain reliefs and investments that may be able to help you. Generally speaking, you should plan to pay at least 10% of your sale proceeds to the taxman.

When you've finally got the money sat in your bank, you may think your work is done; unfortunately, you're likely to be mistaken! Most businesses, after 2 years, are able to benefit from Business Relief. This is a relief from Inheritance Tax, which is payable on death. When you sell up, you have essentially swapped the business, for cash, therefore you will no longer benefit from Business Relief. For smaller values, this won't necessarily cause a problem. However, if your estate (including the sale proceeds) amounts to more than £325,000, you need to get some inheritance tax advice, as you may have a 40% tax bill lurking. You should consider taking independent financial advice when you sell the business, to uncover any nasty tax liabilities and explore the planning techniques to eliminate or reduce them.

SUMMARY

Whether you're considering selling your business, trying to grow your business, or simply looking for the best way to extract your money from your business, Three Counties can provide you with support, guidance and advice.

For further information, guidance and tailored advice, contact me via ***corryn.wild@three-counties.co.uk***.

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