

2009/10
GUIDE TO...

Exiting a Business



McGILLS

Chartered Accountants

Oakley House, Tetbury Road, Cirencester
Gloucestershire GL7 1US

Tel: (01285) 652128

Fax: (01285) 644361

Email: accountants@mcgills.co.uk

www.mcgills.co.uk

YOUR GUIDE TO Exiting a Business

Few people starting a business will have a clear plan for its end. Nevertheless, it is essential to give early consideration to how you will make an exit from your business when the time comes.

Any form of exit strategy requires careful and early planning. Besides the commercial realities and legal complexities, steps must be taken to ensure that you minimise the tax liabilities and maximise your financial gains. These are areas in which we have experience and expertise.

A succession plan

Once a business has survived the start-up stage, the founder should begin giving consideration to succession. A good business succession plan should enable you to:

- ensure that control of the business is transferred to the successors according to your wishes and their abilities
- allow your chosen successors to take over the business in a smooth and orderly manner
- avoid or reduce any tax on the change of ownership
- provide ongoing and sufficient financial security for you and your family.

A successful transition

There are some essential elements to ensuring a smooth business transition:

Commitment – The founder must acknowledge that the business has to continue in order to create opportunity for those to come.

Investing in the right people – Recruiting and retaining good people will always pay dividends and is a key factor in succession planning. Invest time in developing your family or other management team members and allow them to exercise authority and control. By empowering a broad range of key people, the selection process is simplified and options are enhanced.

Implementation – Having come this far, the founder should announce his or her future plans. This gives key management people and family successors a clear path to the future and a definite goal. The founder needs to be prepared to let go of the reins and to take on new challenges in retirement.

Preparing for Sale

Selling your business may be the time when you finally get to reap the rewards of a lifetime of work. Or it might be the opportunity to cash in when the conditions are right, before you start your next enterprise.

Either way, the sale of your business will be one of the most important things you'll ever do. If you get it right, the financial gains can be considerable.

Here are some of the most important issues you will need to consider:

Timing the sale

When is the right time to sell? In an ideal world, you would sell when the market is booming and before any anticipated downturn. But internal factors are just as important. If your business is performing well, perhaps at the peak of a pricing cycle, it will be more attractive to potential buyers.

Above all, if you have any choice in the matter, sell when you want to, not when you have to.

Preparing your business for sale

You will need to have up-to-date information available for inspection by potential buyers. This will include:

- business plans and budgets
- financial documents such as profit and loss statements
- details of loans against the business
- the lease for any premises or leased equipment.

Setting a price

Where possible, you can let buyers set the price through competitive bidding. Most will bid within a predictable range, but it is not unreasonable to expect one or two to bid substantially higher. Two common mistakes sellers make are to set an asking price that is too low and thereby preclude any premium bids, or to build in so much leeway that they set the price unrealistically high and deter serious potential buyers.

Although ultimately your business will only be worth what a buyer is prepared to pay in your particular marketplace, there are steps you can take to maximise the chances of a good selling price.

Making the Sale

Maximising the sale value

There are a number of things you can do in order to make your business more attractive to potential buyers and therefore command the best possible price. These might include:

- **Increasing sales figures or broadening your customer base** – perhaps through stronger advertising or offering special deals
- **Securing your assets** – consider selling off any unproductive assets, and replacing any machinery reaching the end of its useful life. Now might also be the time to buy any company assets you want to keep after the sale, such as a company car. Make sure your intellectual property rights are protected
- **Reducing liabilities** – if you can clear up any pending legal disputes or other liabilities before the sale, there will potentially be fewer obstacles to deter a buyer
- **Formalising contracts** – put into writing any agreements you have with suppliers and customers
- **Smartening up** – make an effort to improve the appearance of everything in the business, from the premises to the paperwork.

Making the sale

Before selling, you should consult us, as well as your solicitor and independent financial advisor. It may also be advisable to employ Business Transfer Agents who specialise in buying and selling businesses. In some cases, sellers find it necessary to finance at least some of the price – that is, lending to the buyer to facilitate the purchase.

After the sale

Once you know the value of the business you need to determine how the funds released by the sale can best be used to provide you with a comfortable retirement or to begin a new business venture. Valuable tax reliefs are at stake here, so consult us early in your planning to avoid an unnecessary tax bill.

With proper planning and good advice, you can ensure that you get the price and terms that satisfy your reasons for selling your business, while minimising your tax liability. We can help you make the right decisions.

Partnerships and MBOs

Ending a partnership

It is important for any partnership agreement to set out exactly what each party will be entitled to when they leave, or when the partnership comes to an end. Will a departing partner be entitled to only his or her share of the original capital, to a share in the tangible assets and goodwill, or to an annuity?

When ending a partnership, special care needs to be taken if a tax 'penalty' is to be avoided.

For example, on the sale of a partnership business to a plc, the best strategy might be to incorporate the business, then take shares or loan notes in exchange for your shares in the business. As well as reducing the cash flow impact of the sale on the new owners you may, with care, be able to shelter or defer substantial capital gains.

This might not be a strategy suitable for all sales, but we can advise you regarding your own particular circumstances.

Management Buy-Outs (MBOs)

When planning a management buy-out, it is crucial that the management team is competent and fully trained to the required standard. Their skills will be a decisive factor for any potential lenders or venture capitalists.

Careful planning of the structure of any deal is a necessity and professional advice should be sought.

Options might include allowing the management team to acquire the business in stages over a number of years.

How we can help you

However you plan to exit your business, whether by sale, family succession or another means, you should seek professional advice in order to minimise your liability to capital gains tax and inheritance tax, and to ensure that you gain maximum leverage from the opportunity.

Call us today for advice.

Our Services

Business Planning

- Business start-up planning and advice
- Strategic and business planning
- Financial management
- Financial information systems
- Computer systems advice

Taxation Advice

- Self assessment
- Personal tax
- Business tax
- Company tax
- Capital gains tax
- Inheritance tax
- HM Revenue and Customs investigations
- Value Added Tax
- PAYE and national insurance compliance

Accounting

- Preparation of annual accounts
- Preparation of periodic management accounts
- Book-keeping services
- Maintaining PAYE and VAT records and associated returns

Company Secretarial

- Preparation and filing of statutory returns
- Preparation of minutes and resolutions
- Company formation
- Company searches

This guide is for general information only. No responsibility is taken for any action taken or refrained from in consequence of its contents. Always seek professional advice before acting.

Please contact us for further information



Oakley House, Tetbury Road, Cirencester
Gloucestershire GL7 1US
Tel: (01285) 652128
Fax: (01285) 644361
Email: accountants@mcgills.co.uk
www.mcgills.co.uk