10% for most trading company shares held by people engaged in running the business, and the top rate of CGT is only 28% even if the relief is not available. That's likely to be lower than the double charge on an asset sale.

If you sell your shares and leave the company's employment at the same time, it may be possible for the company to top up your pension fund for you, or even to give you a golden handshake. You have to be careful about this, though – HM Revenue & Customs have been known to argue that these payments are not expenses for the company, but rather part of the share sale. The tax advantages depend on making sure that the best treatment can be justified on the facts of the case.

Example

Chris owns all the shares in Chrisco Ltd, which was set up years ago at a cost of £1. A multinational company has offered to buy the business for £2m, which would produce profits in the company of £1.5m. On a share sale, Chris will pay CGT at 10% of £2m and keep £1.8m. If the company sells the assets it will pay tax at 28% leaving £1.58m. Chris will pay another 10% CGT and keep only £1.422m.

How we can help

If you leave your exit strategy to the last minute, you are unlikely to get the best return on your business. You need to think about your options early and consider the full range of possibilities.

We can explain those options to you and work out how much tax you might pay or save in your own individual circumstances. We can then help to make sure that you carry out the plan accurately so the taxman cannot complain about his share.

When you are looking for the exit, we can provide some signposts!

OUR SERVICES

Taxation

- Income tax
- Business tax
- Corporation tax
- Value Added Tax
- PAYE and National Insurance
- Capital taxes (including Capital Gains and Inheritance Tax)
- Estate planning
- Tax investigation advice & assistance
- Construction Industry Scheme

Accountancy

- Financial accounts
- Monthly management accounts
- Budgets and cashflow projections
- Book-keeping services
- Payroll service

Business

- Comprehensive start-up service
- Financial management
- Cost benefit analysis
- Grant claims

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The information contained in this report is intended for guidance only. We recommend that you seek specific, detailed advice before acting on any of the matters contained herein.

2010–2011 GUIDE TO

Exiting your Business

ASTONS
BUSINESS, TAXATION & FORENSIC ACCOUNTANTS

Exiting your Business

The way out?

An "exit strategy" sounds like a plan for a military operation, but it's an important long-term goal for anyone running their own business. If you don't want to hand it on to the next generation of your own family, you surely don't want to be running it until you drop. You need to consider as early as possible how you will maximise the return when you leave. That could be for retirement or to start something else, but whatever you go on to do afterwards, a good and timely plan can give you a great deal more money to work with.

The starting point

The legal form of your business makes a big difference to how you sell it. If you trade through a company, you will usually dispose of your shares to someone. If you are a sole trader, you will sell the assets and the undertaking as a going concern.

It may be worth changing from one to another – incorporating some or all of a sole trade in order to sell it. This is a way of packaging up the assets for a purchaser – but it has significant tax consequences and has to be handled carefully.

A long goodbye?

The simplest way of getting out is to sell everything at once and be done with it. However, it may not give you the best return. You could think about bringing in or promoting someone to manage the business while you still own it, maybe giving them an option to purchase it in due course at a good price.

If they do well, you continue to derive an income for the moment, and you have your exit ready-made when the option comes up.

You have to be sure of your managers, though. If they are not as good as you at running the business, you may see the value of your capital plummet – and you will probably have to get involved again to sort the situation out.

A quick sale

Many people will prefer the certainty of an outright sale which generates a capital sum they can invest to earn a return. Even if interest rates are not attractive at present, there is something about seeing the cash in the bank that is reassuring.

If someone has been found to pay the sort of money you want to receive, you can make a big difference to the net return if you plan carefully. As usual, it's the taxman's share that can be larger or smaller, depending on how you arrange things.

Because the tax written down value of business assets is usually different from their market value, it's also worth considering carefully whether to take over personally items such as a car or a computer.

There are many different alternatives and this leaflet can only consider a couple to show how important it is to take advice.

A good and timely plan can give you a great deal more money to work with.

Example

Neil runs a sole trade which makes profits of just under £150,000 each year. He has no other income, and he pays nearly £50,000 in income tax. Someone has offered to buy the business for £200,000, which will all represent a capital gain.

If Neil sells just before the end of the tax year, he could wipe out his whole income tax liability by paying a large pension contribution. If he is already 55 he can immediately cash in the pension policy and draw 25% of the fund as a tax-free lump sum, and use the rest to generate an income.

He will pay CGT on the capital gain at an effective rate of 10% because of Entrepreneurs' Relief – £20,000.

What next?

Capital gains on the sale of an unincorporated business can often be put off by buying another business asset, for example a property used for bed-and-breakfast. This could later be turned into straightforward rental accommodation, with the gain still deferred until the building is sold.

Parting company

If you trade through a company, you will prefer to sell the shares. If the purchaser wants to buy the assets and undertaking, you could end up suffering two tax charges – the company will pay corporation tax on its sale, and you will pay personal tax when you take the money out of your company. On lifetime gains of up to £5m, Entrepreneurs' Relief sets the CGT rate at