

PRE-SALE FINANCIAL PLANNING

Plan ahead and consider your personal finances.

THE IMPORTANCE OF PRE-SALE FINANCIAL PLANNING

Your business is likely to be your most significant asset and main source of income. When selling your business, it is important to go beyond solely aiming to maximise the final sale price. You should also consider the impact of the proceeds on your personal and family estate.

A financial adviser can bring expertise, objectivity, and personalised guidance to optimise your financial situation before the sale of your business.

Their comprehensive approach and knowledge of various financial areas can help you make informed decisions, minimise risks, and maximise the value of the business sale for your long-term financial well-being.

While the steps you should take vary depending on your own financial situation, here we look at some areas which you may consider in your pre-sale financial planning.

PENSION CONTRIBUTIONS

Considering retirement planning is crucial when planning to sell your business, especially as the proceeds may be used as a source of income in retirement.

Additionally, if you're not planning to retire immediately, it's important to note that you may no longer receive pension contributions after the sale. Therefore, you may consider maximising your pension funding prior to selling your business. There are some potential restrictions on the availability of corporation tax relief where employer contributions are made when a business is ceasing to trade, find out more at [gov.uk](https://www.gov.uk).

In the 2024/25 tax year you can contribute up to £60,000 in total in your pension pots. Also, if you have not used up your pension allowances from the three previous tax years you may be able to carry these forward and use them too (providing you had sufficient earnings in those tax years). If you are a high-earner you may have a tapered allowance which reduces how much you can contribute. Further details on this can be found at [gov.uk](https://www.gov.uk).

CAPITAL GAINS TAX & BUSINESS ASSET DISPOSAL RELIEF

Under the existing regulations, when a business is sold, the owner is subject to capital gains tax on the profit made. However, if the owner meets certain criteria, they may be eligible to apply for Business Asset Disposal Relief ([BADR](https://www.gov.uk)), formerly known as Entrepreneurs' Relief. This relief allows for a potential claim of up to £1 million pounds at a reduced tax rate of 10%. Any remaining profit beyond that threshold will be taxed at the prevailing rate of 20%.

INHERITANCE TAX & INTERGENERATIONAL WEALTH PLANNING

Currently, a trading business that has been running for over two years can qualify for business relief, meaning the value of your business is either partially or fully protected from the current Inheritance Tax (IHT) rate of 40%.

However, once the business sale goes through and you have the cash proceeds, you lose that relief and fully expose yourself to the 40% tax rate unless the funds are used to purchase a replacement qualifying asset within three years of the sale.

You can make outright gifts to family members and friends.

Outright gifts over the various gifting exemptions need seven years before they fully transfer out of the donor's estate for IHT purposes.

Areas you could consider to help mitigate IHT liabilities can be found in the table below. Due to the complexity of IHT and its specific implications for business sales, it is strongly recommended to seek professional advice in this area.

Trusts	Business Relief (BR)	Utilise Exemptions and Allowances
<p>Certain types of trusts, such as discretionary trusts or family investment companies, can provide flexibility in distributing income and managing tax liabilities effectively.</p> <p>Trusts are not just about shielding wealth from IHT. Trusts are valuable tools to help protect and control assets.</p> <p>The seven year rule may apply, find out more at gov.uk.</p>	<p>BR is a valuable relief that may reduce or eliminate the IHT liability on your business assets.</p> <p>Depending on the specific circumstances, BR can provide 100% or 50% relief on the value of qualifying business assets, such as shares in unlisted trading companies or business assets used in a partnership.</p> <p>It's important to review whether your business assets meet the criteria for BR and seek professional advice to maximise this relief.</p>	<p>Take advantage of all IHT exemptions and allowances available to you. For example, the annual exemption allows you to gift up to a certain amount each tax year without incurring IHT.</p> <p>The Residence Nil-Rate Band (RNRB) and the transferable Nil-Rate Band can also be utilised to mitigate the IHT liability on your estate.</p> <p>The maximum available RNRB in the tax year 2024/25 is £175,000 per person (£350,000 per couple).</p>

LOOKING AHEAD

LONG-TERM PLANNING

How much you need for your desired lifestyle in retirement is an important question to ask prior to selling your business. This can help determine whether or not you accept an offer lower than you were expecting.

Cashflow planning can provide a roadmap for achieving your objectives and will show if the income from the sale will be enough to support you and your family and achieve your post-sale goals. The process can be seen in the Cashflow diagram below.

THE CASHFLOW PLANNING PROCESS



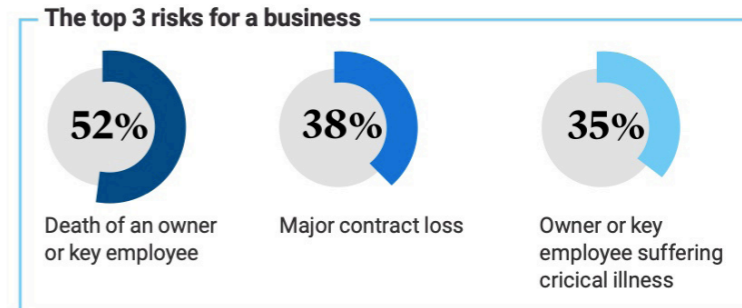
LIFE AFTER EXIT

Adjusting to life after selling a business can present various challenges. Once the sense of accomplishment and satisfaction subsides, you may struggle with creating a new routine, finding new goals, or adapting to a different pace of life. There may also be social changes as your network and daily interactions shift.

It is important to consider what you will do after the sale. Loved ones or business mentors can be helpful in navigating these emotional challenges effectively. Having a plan to use up some of your time can help the transition to the next chapter of your life.

PROTECTION

TOP BUSINESS RISKS



Source: [State of the Nation Report 2021](#)

SHAREHOLDER PROTECTION

Shareholder protection is essential for maintaining control and stability within a business following the death or critical illness of a shareholder. This protection provides the necessary funds to allow the remaining shareholders to purchase the shares from the deceased's estate or the critically ill shareholder.

By having a shareholder protection policy in place, business owners can ensure that shares are bought out at a fair value, avoiding potential conflicts and ensuring that the company remains under the control of the existing owners.

This arrangement not only provides financial stability to the deceased's family but also prevents the business from falling into the hands of external parties who may not share the same vision or commitment to the company's future.

KEY PERSON PROTECTION

Key person protection is designed to mitigate the financial impact of losing a crucial individual within the company due to critical illness or death.

These key individuals - owners, directors, managers, or specialist employees - play vital roles in the operation and profitability of the business. Their loss could significantly disrupt operations, reduce revenue, and affect the company's ability to meet its financial obligations.

Key person cover ensures that sufficient funds are available to keep the business running, cover recruitment costs for a replacement, and provide additional capital to repay any outstanding commercial debt. This protection helps maintain the confidence of customers, suppliers, and lenders, ensuring business continuity during difficult times.

Next steps

Navigating the complex world of financial planning can be a daunting task especially when you are focussing on your business and preparing it for sale. We are here to help you and your family to make informed decisions and help achieve your post-sale financial goals. Contact us [here](#), or call us on 0161 819 1131.

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