

Big... bigger... biggest...

Within all the recent election hype, the political parties have talked about helping small businesses to grow and succeed. Chris Floyd, tax manager at Landers the Accountants, considers how all the expected flourishing businesses can maximise their benefit from the increased profits.

WHETHER you are an entrepreneur growing a business to sell, an owner-manager who needs help with their growing business or a sole trader concerned about increasing profits, it is important to structure your business in the right way - and at the right time - so that more of your increased income is retained either for future growth or personal reward.

Starting with the smallest of acorns as which many businesses begin, a sole trader business that grows needs to consider the benefits of incorporating that business into a limited company. With tax rates for small companies and individuals becoming ever closer, this may not necessarily be the best option. Limited Liability Partnerships give similar protection to personal assets and should be considered as an alternative. A partnership can be incorporated at a later date but it is much harder to un-incorporate a business.

When an existing company expands by offering new products and services or moves into a new market, there can be significant tax savings by careful structuring of this additional income source. Proper planning in this area can also help to retain and reward key employees.

Even when there is no new product or service, a growing business may still need to look at ways to reward its staff while securing their future commitment. The use of share schemes is one way and there are several HM Revenue & Customs-approved schemes which enable a company to provide shares to all employees on favourable terms.

Small companies will more likely want to offer shares only to certain key people. This may be done so as to reward them for the efforts they put into increasing profits or as a way of bringing in new managers who may later take on ownership of the business. This can be done using the Enterprise Management Initiative, a specific type of approved share scheme.

Once your business has grown, consideration needs to be given to how to extract your profits in the most tax efficient way. This will depend on the structure of the business and the people involved. Specific advice is required for each business to ensure it gives its owners maximum benefit without compromising future value.

A thriving business will be able to continue for many years. At some



● Chris Floyd

point, however, thoughts will turn to future ownership. If you intend passing on a business to your children, protecting inheritance tax reliefs may be your biggest concern.

If you plan to sell your business to an unconnected party, your main concern is likely to be maximising the value of the business while minimising the Capital Gains Tax payable. Early planning will ensure that you get the best use of all available reliefs. A third possibility would be to sell the business through a management buy-out. Depending on the needs and resources of all the parties, this may be a process which needs to be spread over several years so as to achieve the smoothest of transfers.

To discuss any of these issues in further detail, contact Chris Floyd on 01525 873922 or email chris@landerstheaccountants.com