

Planning ahead ensures a smooth transition



● **Chris Floyd**

GENERALLY, a third party sale will involve you selling your entire interest in the business, although with a company you may merely sell the assets and the goodwill.

The sale will be subject to capital gains tax and the amount of tax will depend on the rate in force at the time when the contract becomes unconditional, regardless of when the money is paid. Historically, businesses and personally owned business assets have been charged at a lower rate of CGT than gains on other assets.

You may be asked to continue working in the business for a while after the sale. Any salary you receive will be taxable under PAYE like any other employee which could mean a reduction in your net income.

Whereas a sale can happen over a short period of time, a management buy-out

Whether you have decided to put your feet up or you want to move on to new things, finding the most tax-efficient way of passing on your business is not always easy. The more successful the business, the bigger the potential problem. Chris Floyd, tax manager of Landers Accountants Ltd, considers three possible situations.

LANDERS | THE ACCOUNTANTS

Tel: 01525 873922
www.landerstheaccountants.com
Church View Chambers, 38 Market Square,
Toddington LU5 6BS

needs to be planned for over a number of years. Funding for the buy-out may be coming from several sources and each will have its own tax issues. Companies can use HM Revenue & Customs-

approved share schemes as a tax-efficient way of passing on at least part of the business. This also helps show commitment from both sides. Reserves in the company may be used to help finance the buy-out. This needs to be structured in the right way to ensure that it is taxed as a capital gain rather than as an income distribution. This could make a considerable difference in the amount of tax paid.

There are many ways of passing on a business to your children and each aspect of this will have its own tax issues. In addition to considering CGT, there are inheritance tax issues. It is also more likely that you will want or need to continue working for the business in some capacity. Careful planning of all possibilities is essential to ensure that the transition is a smooth one and that there are no nasty tax surprises.