TCii Strategic and Management Consultants

Why you need an exit plan

A Guest Article by Michelle Germain
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The advantages of planning early

Every owner of a privately run business should have an exit strategy plan. Surprisingly, however, few entrepreneurs actually do, even though exiting has to be the ultimate goal for business owners – the final realisation of all that they have worked for. For tax reasons alone, an exit plan makes sense.

For so many owners, exit planning is a neglected area because the day-to-day pressures of running a business mean that the economic health of the company takes priority over the time spent on planning their own financial objectives. However, the consequences of failing to plan ahead can be both considerable and expensive, even if a business owner does not have plans to leave the company in the foreseeable future.

Tax planning now is likely to be easier and less disruptive than paying tax later: most owners will want to make sure they end up with maximum cash in hand after taxation. And they can unlock some of the wealth currently tied up in the business, allowing it to continue to thrive once they have left. Furthermore, planning an exit strategy gives confidence to co-directors, employees, family and clients – and the bank.

Financial planning tools

There is a wide range of financial planning tools that can be applied to the development of an exit strategy. These include international investments, cash flow injections to support the balance sheet and facilitate exit plans, retirement planning, corporate protection and capital tax planning, which, arranged effectively, can reduce or remove the twin threats of capital gains tax (CGT) and inheritance tax (IHT).

Inheritance tax planning

With IHT, having a will in place while running a business is absolutely essential. It is vital to make sure that as much of your estate as possible stays out of the taxman's grasp. And there are perfectly legal ways of doing this through careful planning, passing as much of the proceeds of an estate as possible to chosen beneficiaries.

A will has to be drawn up, written and planned correctly to save the maximum amount of tax. Assets need to be transferred through the prudent use of gifts. And an IHT-efficient fund needs to be set up to enable beneficiaries of an estate to meet the tax liability without disturbing family wealth.

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Retirement planning

This is another area where early planning is very important. The earlier people start planning for retirement, the easier it is to create the desired lifestyle for those precious later years.

And while pensions still represent the best option for funding retirement, they are not the only tax-efficient savings vehicles: others include venture capital trusts (VCTs) and enterprise investment schemes (EISs). Although high risk, these exciting investment opportunities can offer significant tax benefits, such as income tax relief, tax free growth, deferral of CGT and tax relief when funding for retirement and IHT mitigation after two years.

Specialist advice can help

Dealing with all this at the same time as running the business is a daunting prospect for anyone, and advice from a wealth management specialist can help business owners to meet their aims while concentrating on managing their company.

At the same time, a wealth expert can help time-hungry entrepreneurs with all those other neglected personal financial affairs such as investment, personal banking, mortgages, healthcare and insurance.

Exit plan checklist

Every privately-owned business will one day end up being sold or transferred. Here are some key questions that business owners should ask themselves, to ensure that their exit plans are on track.

- How much can I expect to realise from my shares?
- What are the IHT implications of selling my business and holding the proceeds in my personal name?
- What is my personal income/expenditure likely to be once I've sold?
- How do I use the proceeds to meet my desired income without eroding capital?
- Do I need to rewrite my will?
- Do I want to gift any of my monies upon sale?
- What will be my IHT position?
- Have I maximised my pension and ISA allowances?

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- How much state pension will I get? (Contact the Department for Work and Pensions to obtain a forecast.)
- What retirement benefits will I get from old pensions? (Get in touch with previous employers and old personal pension providers to obtain retirement benefit statements.)
- Am I considering moving abroad? (If so, investigate Offshore Bonds and Qualifying Overseas Recognised Pension Schemes (QROPS).)
- What will my Income Tax position be and how can I receive tax efficient income from the capital?
- What are my plans following exit?
- Will I retire fully or partially, or will I reinvest the proceeds into another business?
- Have I considered a range of options for tax planning to maximise the proceeds net of tax?
- Do I intend to distribute part of the proceeds to my family?
- Has my attitude to investment risk changed?

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.