Selling Your Business

Tax director Jon Miles takes you through the key stages of preparing your business for sale.

Getting a business ready for exit takes time...

It's important to begin de-risking the business as early as possible pre-sale to ensure it is tax efficient and protect against any due diligence issues, which could affect the eventual sale price and the process.
To do this properly can take around 2 to 3 years, depending on your situation.

Why does it take so long?

First, you need to be sure of your objectives in order to achieve the best overall solution.
There are many ways to structure an exit, including sale to a third party or perhaps an Employee Ownership Trust. Sometimes the success of the company is seen to be dependent on the role of the owner and the likelihood of this affecting the valuation needs to be considered ahead of time and steps taken - such as developing key staff - to limit the risk of a reduced sale price.

Sometimes an outright sale might not be viable and other options such as a Family Investment Company could be the answer.

Other areas that should be considered are how to maximise Business Asset Disposal (BAD) Relief, whether shareholdings need to be restructured, and whether the company's Articles and shareholders agreement need to be reviewed.

From the owner's personal perspective, the Inheritance Tax (IHT) implications of a business sale, the post-sale tax position, and whether any pre-sale IHT planning might be feasible, should all be considered prior to the deal. But all this takes time and good planning.

Follow these steps to get your business ready for sale:

The sale process can vary depending on the type of business and where it's located, but it generally involves the following steps. Though you may feel confident that you can handle the process yourself, professional advisers such as business brokers, corporate lawyer, accountants and tax experts can help you deal with each phase.

1. **Determine the business's worth.**
Assess the value of the business based on its net assets and profits. A small business may be worth a multiple of its yearly profits, but the value can vary depending on the specifics of the situation. For a realistic view, we would recommend you speak to a professional accountant or broker. Look for someone who has experience evaluating similar businesses and can use that experience to guide the valuation. You can determine the value yourself but be prepared to support this with documentation.

2. **Prepare your financial documents.**
Potential buyers will want to review your business's records, financial statements and tax returns to get a better understanding of the its financial situation and sales history. Make sure all your documents are ready and accurate.

3. **Find prospective buyers.**
You may be able to list your business for sale online or in local publications. You could also work with a business broker, a professional who can match sellers with potential buyers in exchange for a cut of the sale price.

4. **Get financing in order.**
Many business buyers will need to take out finance to buy your business. You may also have to allow the buyer to pay you part of the selling price up front with the rest following, plus interest, over time.

5. **Negotiate the terms of the sale.**
As with many transactions, expect the buyer to want to negotiate the sale price and terms of the agreement. You may want to appoint professionals who have managed small business sales before, including an accountant or corporate lawyer, to review the terms of any informal agreement you may have made and draw up Heads of Terms.

6. **Close the deal.**
The legal contract can then be drawn up, using the information agreed in the Heads of Terms. Once signed by both parties control and ownership will pass to the buyer. It is advisable that these documents are drafted by a qualified corporate lawyer to avoid issues later.

How we can help...

It may be that you feel confident enough to handle your business sale yourself, but if that is not the case, at Richardson Swift we have a whole team of expert accountants and tax advisers who are highly experienced in dealing with all aspects of business sales.
We also have links with several trusted and experienced legal, business broker, and finance professionals who have worked with us over many years assisting our clients with both selling and acquiring businesses.

Our Approach
We adopt a balanced commercial approach, to ensure that the material tax risks are managed and communicated, while being mindful that the deal needs to complete. We can also work alongside your own accountant, corporate lawyer or broker on a "one off" basis to provide the necessary specialist tax input.

Before the transaction
If we are instructed early enough, we can help you by providing a realistic business/share valuation to aid negotiations. We have a lot of experience in this area and can work on a one-off basis with you whilst you retain your relationship with your accountant for the accounts/tax compliance work.
We may be able to advise on planning matters, such as maximising Business Asset Disposal Relief, or how an acquisition of a target business could be structured, but this will depend how far in advance we are instructed.
Identify any share option arrangements, Employee Trusts etc that exist, and advise on the issues that will need to be addressed for the transaction to go through and the mechanisms etc. for dealing with these arrangements and managing expectations.
Consider the Inheritance Tax (IHT) implications of a business sale, the post-sale position, and whether any pre-sale IHT planning might be feasible.

During the transaction process
Whether you are selling or acquiring we can support you and your lawyer in reviewing the Sale and Purchase Agreement/Asset Purchase Agreement, Tax Covenant, Tax Warranties (subject to your accountant covering some of the routine points), and Loan Note Instruments.

After the transaction
Depending on the structure of the transaction, there may be further advice needed, for example on extracting the cash proceeds from a company, assisting the vendors with tax return preparation for earn-out element of proceeds etc.

The Legal Bit

We hope you've found this ebook helpful, but please note that though based on the most up-to-date legislation it is for guidance only and can not be construed as advice.
We would always recommend that you consult a qualified accountant or tax adviser before taking any action based upon the contents.

Get In Touch...

Contact our team on 01225 325580 or email hello@richardsonswift.co.uk for more information.

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